Weekly Commentary
June 1, 2009

The Markets

How do you spell higher stock market prices? J-O-B-S!

We all know that stock prices generally reflect the underlying growth of earnings, but companies cannot grow much unless consumers have jobs that allow them to spend money on stuff created and delivered by companies. So, how do we stand on the metric of job creation? Unfortunately, it's ugly.

Since the recession started in December 2007, our country has lost 5.7 million jobs, according to the Department of Labor. Economists surveyed by MarketWatch predict another 500,000 were lost in May 2009. If May comes in as projected, that would mean the number of employed Americans would be the same as it was in August 2000. In other words, we would have a net change of zero new jobs created in roughly the past nine years, according to MarketWatch.

Is it any surprise that the major U.S. stock market indexes are lower now than they were nine years ago?

When you put it in that perspective, the government's urgency to turbo-charge the economy and generate jobs makes more sense. The presently unanswerable question is, will the medicine to fix the economy in the short-term (e.g., massive budget deficits), stunt its growth in the long-term?

Reasonable people can argue both sides of that presently unanswerable question, but based on the recent surge in the stock market, those who think we can handle the debt seem to have the upper hand.

Data as of 5/29/09	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	3.6%	1.8%	-34.4%	-10.1%	-3.9%	-3.4%
DJ Global ex US (Foreign Stocks)	2.8	14.9	-37.1	-8.3	2.7	1.2
10-year Treasury Note (Yield Only)	3.5	N/A	4.1	5.1	4.7	5.8
Gold (per ounce)	1.6	12.2	10.5	13.9	19.9	13.8
DJ/AIG Commodity Index	3.5	6.6	-40.8	-11.2	-4.2	4.8
DJ Equity All REIT TR Index	7.3	-8.5	-47.4	-15.6	-1.0	N/A

Notes: S&P 500, DJ Global ex US, Gold, DJ/AIG Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT TR Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not available.

Sunk costs and mental accounting can be hazardous to your wealth. Let's pretend that you just arrived at a theater and as you reach into your pocket to pull out the $10 ticket that you purchased in advance, you discover that it's missing. Would you fork over another $10 to see the movie? Compare that to a second scenario in which you did not buy the ticket in advance, but when you arrive at the theater, you discover you lost a $10 bill. Would you still buy a movie ticket?

In these two scenarios, you effectively lost $10, but here's where it gets interesting. Psychologists Amos Tversky and Daniel Kahneman of Princeton University conducted the above study in 1984. They discovered that only 46% of the study participants in scenario one said they would spend another $10 to buy another movie ticket. However, a whopping 88% of the subjects in scenario two said they would still spend $10 to buy a theater ticket.

Here's what happened. More than half of the subjects in scenario one created a "mental account" for the theater ticket. They equated the $10 they spent on buying the ticket in advance with the additional $10 they would have to spend to replace that ticket and concluded that the theater ticket actually would cost them $20. Paying $20 for a $10 ticket was a non-starter for 54% of the study participants.

Conversely, in scenario two, 88% of the study participants did not create a "mental account" that equated the $10 theater ticket with the $10 bill they lost on the way to the theater. But, as you can see, in both scenarios, the study participants still lost $10.

So, are humans completely irrational? Sort of. The participants who lost the theater ticket succumbed to the "sunk cost" trap. They let the price they paid for the lost ticket affect their decision to buy a new ticket even though the two are technically unrelated.

Investors frequently do the same thing. They buy a security, watch it go down, and then tell themselves, "as soon as it gets back to breakeven, I'll sell it." But, the fact is, a losing security is a sunk cost and there should be no commingled "mental accounting." Instead, each investment decision should stand on its own and be made based on the most current information.

Remember, you don't have to recoup a loss in the same way that you generated it. Sometimes it's best to take a loss and move on to a more promising investment.

Weekly Focus – Think About It

"When you let go of trying to get more of what you don't really need, it frees up oceans of energy to make a difference with what you have. When you make a difference with what you have, it expands."
--Lynne Twist

Best regards,

Jim

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* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

* The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.

* The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.

*Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.