

Weekly Commentary July 6, 2009

The Markets

Now that we've passed the halfway mark in 2009, let's review what transpired in the financial markets.

Data as of 6/30/09	2 nd Quarter	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	15.2%	1.8%	-28.2%	-10.2%	-4.2%	-3.9%
DJ Global ex US (Foreign Stocks)	27.4	13.6	-32.4	-8.1	2.0	0.6
10-year Treasury Note (Yield Only)	3.5	N/A	4.0	5.1	4.6	5.8
Gold (per ounce)	2.0	7.4	0.5	15.1	18.7	13.6
DJ-UBS Commodity Index	11.6	4.5	-47.4	-10.9	-3.2	4.0
DJ Equity All REIT TR Index	28.9	-11.9	-42.9	-17.8	-2.5	N/A

Notes: S&P 500, DJ Global ex US, Gold, DJ-UBS 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.

STOCK MARKETS SOAR

The carnage of 2008 and the first quarter of 2009 was followed by a blistering bull run in the second quarter. According to *The Wall Street Journal*, every country in the Dow Jones Global Index experienced a positive return in the second quarter. Here are some of the winners.

Country Returns Based on the Dow Jones Global Indexes Ranked by U.S. Dollar Performance

Winners

Sri Lanka	74.2%
Hungary	66.1
India	62.9
Indonesia	62.4
Cyprus	58.3

Source: Dow Jones Indexes

Other Notables

China	36.1%
Canada	29.1
U.K.	25.5
Germany	21.2
U.S.	16.1

Source: Dow Jones Indexes

Overall, the Dow Jones Global Index, excluding the U.S., rose 27.4 % during the quarter, as indicated in the box score above. Notice that many of the top performing stock markets in the second quarter were in emerging countries.

CREDIT MARKETS DIVERGED

In 2008, investors fled to the relative safety of U.S. government securities and this helped propel the Morningstar Long-Term US Government Bond index to a 28 % gain. In the second quarter of 2009, some investors decided it was time to reverse that trade and put money back to work in the stock market. As a result, stock prices rose and the Morningstar index dropped about 9 % in the second quarter and 15 % for the first six months of the year. While government bonds declined in value, corporate bonds rose as investors reached for extra yield. The Morningstar Long-Term Corporate Bond index rose almost 10 % in the second quarter while the Merrill Lynch High-Yield Bond index rose an astounding 23 %.

The paradoxical lesson here is that “you may pay a high price for safety.” In 2008, seeking shelter in Treasury securities paid off. In 2009, it was a different story as many investors decided to move further out on the risk spectrum. Whether this latest move to add risk ultimately pays off is yet to be determined.

COMMODITIES WERE MIXED

The DJ-UBS Commodity Index rose a solid 12 % for the quarter. Gold finished the quarter up about 2 %. Crude oil tacked on a whopping 41 % while gasoline prices soared 32 %, according to *The Wall Street Journal*. And good old Dr. Copper sprinted ahead by 23 %, which brought its year-to-date gain to 62 %. Growth in China is frequently touted as a major reason for the spurt in copper prices.

Agricultural commodities showed some gains, too. Soybean and sugar prices were up 29 % and 33 %, respectively.

While many commodities showed solid gains in the second quarter, some of them are still down substantially from their highs in 2008. In order for the commodities rally to continue, we may need to see definitive signs that the worldwide economy is on a new growth track. The odds of that happening seem to be slipping a bit here recently, especially in light of the weak June U.S. employment report.

THE DOLLAR FINALLY CRACKED...A BIT

For some time, a small but vocal group of critics has warned that the government’s massive stimulus program and expansionary monetary policy will lead to a debasement of the dollar. In the second quarter, we finally saw a crack in the dollar’s armor. According to *The Wall Street Journal*, the dollar dropped 5.3 % against the euro, 2.7 % against the Japanese yen and 14.7 % against the British pound. It also fell 5.5 % against a trade-weighted basket of currencies tracked by J.P. Morgan Chase.

As the worldwide economy started to stabilize (albeit at a low level) in the second quarter, currency investors began to focus on the super-low government interest rates in the U.S. That may

have been one factor in the recent weakness in the dollar. If worldwide economic growth resumes, that could put continued pressure on the dollar. If the economy goes into another tailspin or the financial markets take it on the chin again, we could see the dollar strengthen as a flight to safety resumes. In other words, so goes the economy, so goes the dollar.

SUMMARY

As the quarter drew to a close, most investors, save for a small group of fringe pundits, felt the risk of financial Armageddon was now off the table. This factor alone may have been a major contributor to the re-pricing of stock prices that took place since March 9, 2009. With that said, it is too soon to flash the all-clear signal. It took us years to get the country into this financial mess and it may take us years to get out of it.

Weekly Focus – Think About It

“Freedom has its life in the hearts, the actions, the spirit of men and so it must be daily earned and refreshed - else like a flower cut from its life-giving roots, it will wither and die.”

-- Dwight D. Eisenhower

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.

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

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* Compliance Number: CRN 201107- 122784