

## Weekly Commentary August 17, 2009

### The Markets

Like a winded mountain climber approaching 25,000 feet, the domestic stock market took a breather last week after several weeks of strong gains.

If this breather turns into the “pause that refreshes,” then the markets may soon resume their upward march and continue the healing from the bear market. Unfortunately, it does not always turn out that neat and tidy.

Sometimes mountain climbers take a break and realize they can't go any further. Likewise, investors digested some of the news last week and realized that perhaps the market got a little ahead of itself. In particular, investors seemed a bit spooked by news that retail sales fell 0.1% in July and that the Reuters/University of Michigan index of consumer sentiment fell in early August to its lowest level since March. Although not a perfect correlation, gloomy consumers may turn out to be stingy spenders and that could be bad news for economic growth.

Similar to our hypothetical mountain climber mentioned above, the powerful rally over the past few months may be trading in rarefied air. Last week, it stopped to catch its breath. Over the next few weeks, we'll see if it also catches a cold.

Data as of 8/14/09	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.6%	11.2%	-22.7%	-7.5%	-1.4%	-2.8%
DJ Global ex US (Foreign Stocks)	0.8	26.7	-17.8	-5.1	5.3	1.5
10-year Treasury Note (Yield Only)	3.6	N/A	3.9	5.0	4.3	6.0
Gold (per ounce)	-0.3	9.6	16.6	15.1	18.9	13.9
DJ-UBS Commodity Index	-2.1	8.8	-33.1	-9.5	-2.7	3.9
DJ Equity All REIT TR Index	-5.0	7.7	-35.2	-12.9	1.0	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.

### HOW MUCH OF THE STOCK MARKET RALLY since the March lows is real versus fake?

On the surface, 100% of the rally is real since we can clearly document through third-party sources that the market has risen significantly. But, is the rally real from the sense that it is being driven by legitimate, sustainable end-user demand or is the rally fake because it is being driven by temporary and unsustainable government spending?

Worldwide, governments have spent, lent, or committed trillions of dollars to support global commerce and to help end the recession. In the U.S. alone, the number is greater than \$12 trillion, according to an analysis by Bloomberg. So far, that money has helped stabilize the world economy and helped pump up stock prices as corporate earnings did not fall as much as initially feared.

Consider this, though, *what happens to the economy when the government's "monetary lighter fluid" stops flowing?*

Think of it this way. Let's say you want to start a fire in your backyard fire pit. You gather some twigs, scrunch an old newspaper and then throw a few logs on top. To ensure a strong start to your fire, you douse it with lighter fluid. You light a match and then – poof – you have a roaring fire. If you've effectively laid out your twigs, paper, and wood, and your wood is dry, chances are your fire will keep burning long after the lighter fluid is consumed. If not, the fire will die shortly after the stimulus of the lighter fluid is gone.

As it relates to the economy, government spending is akin to the lighter fluid. It's igniting the economy and keeping it stimulated. However, that stimulus will eventually end and taxes will likely rise. If the economy starts tanking again as the stimulus wears off, then we'll know that all we've done is mask a major fundamental economic problem with a temporary pain reliever – albeit a very expensive one!

Nobody knows what will happen to the economy when the government largess ends. For our part, we continue to monitor the heartbeat of the economy to try to discern whether it can keep beating under its own power. If it can't, we will do our best to adjust your portfolio and keep it beating to the tune of your long-term goals and objectives.

## **Weekly Focus – Think About It**

“Successful investing is anticipating the anticipations of others.”  
--John Maynard Keynes

Best regards,

*Jim*

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P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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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.

\* Consult your financial professional before making any investment decision.

\* You cannot invest directly in an index.

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