

## Weekly Commentary October 5, 2009

### The Markets

As we enter the home stretch for 2009, let's review what transpired in the financial markets over the past three months.

Data as of 9/30/09	3 <sup>rd</sup> Quarter	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	15.0%	17.0%	-9.4%	-7.5%	-1.1%	-1.9%
DJ Global ex US (Foreign Stocks)	19.2	35.3	4.3	-3.6	5.7	1.9
10-year Treasury Note (Yield Only)	3.3	N/A	3.8	4.6	4.1	5.9
Gold (per ounce)	6.6	14.5	12.6	18.4	19.1	12.8
DJ-UBS Commodity Index	4.2	8.9	-23.9	-7.2	-3.6	3.3
DJ Equity All REIT TR Index	33.2	17.4	-28.1	-12.2	1.6	9.8

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 applicable or not available.

### STOCK MARKET RALLY CONTINUED

Rising a stunning 15.0%, the S&P 500 scored its largest quarterly gain since 1998, according to *The Wall Street Journal*. International markets did well, too, as the Dow Jones Global Index, excluding the U.S. Total Stock Market Index, rose 19.2% in the third quarter. The gains reflected continued improvement in some aspects of the worldwide economy, as well as anticipation that the improvements will continue.

Year-to-date, worldwide stock market returns have been remarkable. Since the March 9 low, global stock markets have added about \$20 trillion in market value, according to an October 4 Bloomberg article. Now that's what we call "stimulus!" Here are some of the winning markets over the past three months.

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

##### Winners

Country	Percentage
Lithuania	71.0
Estonia	50.3
Hungary	39.1
Peru	35.6
Cyprus	35.6

Source: Dow Jones Indexes

### Other Notables

Country	Percentage
Brazil	29.0
Russia	26.3
India	18.3
U.K.	17.7
China	10.0

Source: Dow Jones Indexes

Notice that many of the top performing stock markets in the third quarter were in emerging countries. In fact, Hungary and Cyprus are repeat winners from the second quarter.

### INTEREST RATES DROPPED

Disappointed with low short-term rates and meager returns from perceived safe investments such as money market funds, many investors fled the short-end of the yield curve and moved out to the longer – and riskier – end. So far, that has paid off. The Treasury asset class gained 2.1% during the quarter, according to a Merrill Lynch index. Junk bonds rose a very healthy 15.0% for the quarter and a record 48.0% year-to-date, according to Merrill Lynch data. And, investment grade corporate bonds rose 8.3% for the quarter, rounding out a hat trick for these three bond asset classes.

If inflation becomes a problem or the dollar goes into a freefall, you could see interest rates reverse course and start to rise. Of course, that could lead to a potential setback for the economy so the government is trying to walk a fine line between flooding the economy with liquidity – to help it grow – but not flooding it too much that it would lead to rampant inflation.

With the significant decline in most interest rates over the past few months, investors appear comfortable with how the government has walked this fine line. However, there is a definite concern that down the road, perhaps one to three years from now, we could be in for inflation that rivals the worst of the late 1970s/early 1980s period.

### COMMODITIES WERE MIXED

The DJ-UBS Commodity Index rose 4.2% for the quarter and nearly 9.0% year-to-date. This positive performance masked a wide divergence among its components.

Crude oil finished the quarter nearly flat after a 41.0% gain in the second quarter, according to *The Wall Street Journal*. Gold prices rose more than 6.0% for the quarter as investors continued to debate which is a bigger threat – inflation or deflation. Copper soared another 24.0% on top of its 23.0% gain in the second quarter. And, for those of you with a sweet tooth, you'll have to shell out more to feed your craving. Sugar prices rose a startling 43.0% for the quarter after reaching a 28-year (sugar) high in August. Poor weather in sugar-growing regions contributed to the rise, as opposed to a newfound love for the sweetener.

Theresa Gusman, head of global commodities at DB Advisors, said commodity prices should rebound as companies start to build inventories in anticipation of a recovery in demand. Others,

however, feel that commodity prices already reflect an economic recovery and that further increases will be dependent on supply and demand factors, according to the *Journal*.

## **THE VALUE OF THE DOLLAR DECLINED**

Big budget deficits, concerns about inflation, and a desire for riskier assets helped push down the value of the dollar last quarter. According to *The Wall Street Journal*, the dollar dropped 4.1% against the euro, 6.8% against the Japanese yen, and 9.5% against Australia's currency.

In an August 18 op-ed piece in the *New York Times*, Warren Buffett opined that a continued rise in the debt-to-G.D.P. ratio could cause the U.S. dollar to "melt." When Buffett gets involved, you know it's time to take notice

## **SUMMARY**

To say it's been a wild ride in the financial markets this year is an understatement. We started the year with a massive decline and then after March 9, the markets exploded to the upside on faint signs of economic stabilization. While parts of the economy are working better, unemployment is staying painfully high. Some economists expect unemployment to hit or exceed 10.0% before it starts falling and that presents some strong headwinds for the markets in coming months.

## **Weekly Focus – Think About It**

"In times of change, learners inherit the Earth, while the learned find themselves beautifully equipped to deal with a world that no longer exists."  
-- Eric Hoffer

Best regards,

***Jim***

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