

Weekly Commentary November 2, 2009

The Markets

Have we solved the problems in our economy or just postponed them?

Last week, the government announced that third-quarter GDP grew a solid 3.5%. That was quite a relief coming off four consecutive quarters of negative growth. Gains in the auto and home building sectors led the charge. Those two sectors in particular benefited from federal stimulus programs and without the stimulus, "Real GDP would have risen little, if at all, this past quarter," according to Christina Romer, president of the White House Council of Economic Advisers.

Proponents of stimulus spending say it's doing exactly what it should do – it's helping the economy grow. Critics say we're just delaying another inevitable deep economic adjustment and it's better to take our medicine now than suffer death by a thousand cuts.

The stock market seems confused lately as to which strategy – more stimulus or the end of stimulus – is better. Last week, for example, the Dow Jones Industrial Average experienced three triple-digit declines and one triple-digit advance as investors vacillated between a positive and negative outlook for the economy. This volatility may suggest that after a substantial rise in the markets since early March, investors are pausing to reflect on where we go from here.

Data as of 10/30/09	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-4.0%	14.7%	7.0%	-9.1%	-1.7%	-2.6%
DJ Global ex US (Foreign Stocks)	-4.4	33.5	32.8	-5.2	4.6	1.4
10-year Treasury Note (Yield Only)	3.4	N/A	3.9	4.7	4.1	6.1
Gold (per ounce)	-2.0	19.6	37.7	19.6	19.4	13.6
DJ-UBS Commodity Index	-4.0	12.5	0.5	-7.6	-3.0	4.0
DJ Equity All REIT TR Index	-3.4	12.1	6.9	-15.2	-0.7	9.5

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.

THE UPSIDE TO THE RECESSION OF THE PAST TWO YEARS is that it may have unleashed a new wave of innovation and corporate growth that otherwise would have been buried in better economic times. When times are tough, companies are forced to work smarter, be more creative, and jettison old methods of business that are no longer working. The net result is a changing of the guard in the business world as those companies that are unable to make the switch get passed by their nimbler competitors.

A study by management consulting firm Bain & Company showed that during the 1991-92 recession, there was a significant re-ordering of the pecking order of companies in a wide variety of fields. Specifically, companies that were in the bottom quartile in their industry jumped to the top quartile of their industry at twice the rate during recessionary times as compared to non-

recessionary times, according to the study as reported in *The Economist*. Other studies have reached similar conclusions that recessions bring out the best – and the worst – in companies.

From an investment standpoint, this suggests that the winners coming out of this recession may be quite different from those who went into it as winners. This “changing of the guard” may create new investment opportunities and we are diligently doing our best to find the winners from among the wreckage.

Weekly Focus – Think About It

“There is no comparison between that which is lost by not succeeding and that lost by not trying.”
-- Francis Bacon, Sr.

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.

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