

# Weekly Commentary

## November 23, 2009

### The Markets

Would you willingly give the government your money and expect nothing in return? Last week, that is exactly what happened.

Treasury bills maturing in January 2010 actually yielded -0.01% last Friday. The last time interest rates were negative was at the height of the credit crisis in late 2008 as panicked investors sought refuge in short-term government paper, according to *The Wall Street Journal*. Fortunately, this time around, panicked investors were not the reason for the negative rates.

Many large institutional investors have reaped significant gains in this year's bull market and, rather than risk giving back some of those gains in an end-of-the-year swoon, some of those investors decided to park their cash in ultra-short Treasury bills. This strong demand for the bills, plus a temporary shortage of T-bills available for investment, helped drive the yields to effectively zero.

While the above explanation for the zero interest rates makes sense, there is always the possibility that there is more to the story. If large investors felt the rally would continue, would they risk missing it? We are always mindful that what "makes sense" may not always make money. Accordingly, we remain vigilant for any sign that the bull market is tired and ready to take a nap.

Data as of 11/20/09	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.2%	20.8%	36.4%	-8.0%	-1.5%	-2.6%
DJ Global ex US (Foreign Stocks)	-1.4	37.0	61.5	-4.6	4.2	1.2
10-year Treasury Note (Yield Only)	3.4	N/A	3.1	4.6	4.2	6.1
Gold (per ounce)	3.3	31.1	54.5	22.2	20.5	14.5
DJ-UBS Commodity Index	2.5	15.1	14.9	-7.0	-2.4	3.8
DJ Equity All REIT TR Index	-0.5	18.7	81.8	-14.2	0.3	10.3

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.

**A COMMON MISTAKE MADE BY INVESTORS** is to confuse the performance of the economy with the performance of the stock market. Logically, you would expect the economy and the stock market to move somewhat in synch. That is, if the economy does well, the stock market should do well and vice versa. Directionally, that is usually correct, but the degree of the moves could vary significantly.

This year is a great example of how the economy and the stock market are moving in the same direction, but the degree of the moves in each are way out of proportion. Specifically, the economy is slowly stumbling its way out of the recession while the stock market has been on a tear with the S&P 500 index rising more than 20% year-to-date.

How can stocks rise so dramatically when the economy is still lethargic? In a word – earnings. As the economy started to tank last year, corporate America quickly slashed costs. With a lowered cost structure, it only took a small up-tick in business to produce outsized earnings. In fact, Thomson Reuters said 80% of the S&P 500 companies reported third-quarter earnings that beat Wall Street estimates. To be fair, the earnings were better than Wall Street expected, but they were still generally down from all-time highs.

UBS stock-market strategist Thomas Doerflinger came up with a clever way to describe this rapid improvement in earnings against a slow moving economy. He called it a “‘V’ shaped recovery in profits in a ‘U’ shaped economy.” Major cost-cutting essentially levered corporate earnings power so a small improvement in the economy could translate into a much larger profit improvement.

For bulls, this leverage means we could see record corporate profits before we see record corporate revenue. Sadly, for employees, this could be a “jobless recovery,” but for investors, it could be a profitable one.

## **Weekly Focus – Think About It**

“Would our disappearance leave the world poorer, or just less crowded?”  
--Harold Kushner

Best regards,

*Jim*

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\* 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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