



## Market Commentary February 14, 2011

### The Markets

Despite unrest in the Middle East, the stock market closed last week at its highest level in 32 months, according to Bloomberg.

Analysts point to better-than-forecast economic data, solid corporate earnings, continued Treasury purchases by the Federal Reserve, a jump in corporate takeovers, and improving employment data as catalysts for the market's positive tone. Corporate earnings, in particular, are coming in strong this quarter. According to Bloomberg, "More than 73 percent of the 348 companies in the S&P 500 that reported results since Jan. 10 have topped analysts' per-share profit predictions."

Over time, movements in the stock market essentially boil down to one thing – corporate earnings. In the interim, we can worry about unrest in the Middle East, huge budget deficits, sovereign debt issues in Europe, and various other problems in our world. But, money managers, the people who actually buy and sell stocks, generally care about one thing over the long term, and that's earnings. And, right now, earnings look pretty good.

With that said, there are plenty of newsworthy things happening in the world these days. But, one of the keys to successful investing is to separate the "earnings-moving" news from the "general interest" news. If you mistake "general interest" news for "earnings-moving" news, you might make some bad investment decisions. One of the ways to help discern the difference is to ask yourself, "Will this news affect earnings or the trajectory of the economy?" That's the kind of question we ask our self on a regular basis.

Data as of 2/11/11	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.4%	5.7%	23.6%	-0.3%	1.0%	0.0%
DJ Global ex US (Foreign Stocks)	-0.8	1.4	19.7	-2.0	2.1	4.1
10-year Treasury Note (Yield Only)	3.7	N/A	3.7	3.6	4.6	5.0
Gold (per ounce)	0.7	-3.3	26.7	14.1	20.0	18.0
DJ-UBS Commodity Index	-0.9	0.0	23.4	-6.4	0.0	3.8
DJ Equity All REIT TR Index	2.8	6.0	45.5	5.0	3.2	11.6

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.

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31 State Route 12, Flemington, New Jersey 08822 908.782.0001 800.743.4768 FAX 908.782.4168  
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**IS THE WORLD ECONOMY ENTERING A THIRD “SUPER-CYCLE?”** Standard Chartered Bank defines a super-cycle as, “A period of historically high global growth, lasting a generation or more, driven by increasing trade, high rates of investment, urbanization and technological innovation, characterized by the emergence of large, new economies, first seen in high catch-up growth rates across the emerging world.” Whew, that’s a mouthful.

According to the bank, the first super-cycle began in 1870 and ended in 1913, the eve of WWI. During that time, world economic growth was above trend and America moved from the fourth largest economy in the world to the first. The second super-cycle began after WWII and ended in the early 1970s. Economic growth was again well-above trend and Japan and Asia saw the biggest economic gains.

In its November 2010 research report, the bank said the world began the third super-cycle in 2000. They predict it will last at least a generation and that global gross domestic product will rise from \$62 trillion in 2010 to \$143 trillion by 2030, after adjusting for inflation and modest currency movements. They also project that roughly two thirds of the growth between now and 2030 will come from China, India, and other emerging countries.

Of course, this kind of long-term projection has a large margin for error. The bank even said, “We will not be spot on with our forecasts, so rather than getting hung up on the quantitative aspect in terms of the exact numbers, it is vital to appreciate the change in qualitative terms – namely, what is driving this global growth process.”

And, what’s driving this global growth is globalization and the rise of emerging countries. The implications for the U.S. are significant. For example, a December 2010 report from the Asian Development Bank Institute pointed out that the iPhone, which is the product of U.S.-based Apple, actually contributed \$1.9 billion to our trade deficit with China.

The iPhone contributes to our trade deficit because the phones are assembled in China and then shipped back to the U.S. for sale in our country. In a previous generation, these types of jobs might have been sourced in the U.S. and supported our economy. Now, these types of jobs are frequently sent overseas – which helps emerging economies – but, tends to hurt ours.

Super-cycle or not, globalization and the rise of emerging economies are affecting us. How we rise to this challenge may determine whether our future growth is muted or super-sized.

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## Weekly Focus – These Are Big Numbers!

How many stars are there in the sky? Would you believe 300 sextillion, according to a recent study published online in the journal *Nature*? Visually, that number is 300,000,000,000,000,000,000. While that is a big number, it is much smaller than a googol. A googol is the number 1 followed by 100 zeroes. And, yes, Google the company was named after googol the number – only the founders misspelled it.

Best regards,  
**Prestige Wealth Management Group**

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 email with their e-mail address and we will ask for their permission to be added.

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- \* This newsletter was prepared by PEAK.
- \* 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 DJ Global ex US is an unmanaged group of non-U.S. securities designed to reflect the performance of the global equity securities that have readily available prices.
- \* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- \* Gold represents the London afternoon gold price fix as reported by the London Bullion Market Association.
- \* The DJ Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- \* The DJ Equity All REIT TR Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- \* 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.
- \* Past performance does not guarantee future results.
- \* You cannot invest directly in an index.
- \* Consult your financial professional before making any investment decision.

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