



Weekly Commentary August 16, 2010

The Markets

One week, the glass is half full, the next week, it is half empty.

Investor's lack of conviction was on full display last week as a scandal at Hewlett Packard, a change of heart from the Fed, a revenue miss from tech bellwether Cisco Systems, and an unexpected rise in weekly jobless claims led to a decline in global stock markets, according to Bloomberg.

In particular, the Federal Open Market Committee last week slightly changed its economic outlook by saying, "The pace of economic recovery is likely to be more modest in the near term than had been anticipated." To help the economy maintain momentum, the Fed announced that it will goose the economy a bit by reinvesting the principal payments it receives on its agency securities in longer-term Treasury securities and that it will roll over its maturing holdings of Treasury securities in new Treasury securities. Effectively, this means the Fed will not shrink its balance sheet for the time being.

Whether this move is good or bad for the economy is subject to debate. One camp says it will help keep interest rates low, which could be good for the economy. Another camp says it will help keep interest rates low, *which could be bad for the economy* at this stage of the economic recovery. That was not a misprint -- smart people are taking opposite views on whether low rates are good or bad for the economy. Kansas City Fed President Thomas Hoenig leads the dissenters. In a speech in Lincoln, NE last week, Hoenig said, "We need to get off of the emergency rate of zero, move rates up slowly and deliberately" and "We will repeat the cycle of severe recession and unemployment in a few short years by keeping rates too low for too long."

This tug-o-war between smart people makes for interesting reading (at least for us, anyway!)... but generates no clear trend in the market.

Data as of 8/13/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-3.8%	-3.2%	7.5%	-9.4%	-2.6%	-3.2%
DJ Global ex US (Foreign Stocks)	-4.2	-5.0	4.4	-9.6	1.2	1.0
10-year Treasury Note (Yield Only)	2.7	N/A	3.6	4.8	4.3	5.8
Gold (per ounce)	0.5	10.0	27.3	22.0	22.3	16.0
DJ-UBS Commodity Index	-1.9	-4.6	1.4	-7.6	-4.2	2.5
DJ Equity All REIT TR Index	-3.8	12.5	33.2	-4.9	1.3	10.0

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.



IF YOU HAD TO DESCRIBE THE STATE OF THE ECONOMY as an animal, which animal would you pick? This may sound like a silly question, but it is an actual question from a national survey released last month and sponsored by the Certified Financial Planner Board of Standards.

Some of the *less* common survey responses included cow, kangaroo, lamb, dinosaur, possum, rat, giraffe, hyena, and, not surprisingly, bull. Looking at this list makes us wonder... what attribute does a giraffe or a possum have that can be compared to the economy? Let us know what you think.

The most common responses were bear, snake, turtle, sloth, lion, pig, dog, and skunk.

Okay, have you picked your animal?

For discussion purposes, let's say that you picked a bear as your animal. Of course, a "bear" is also commonly used to describe a weak stock market. Now, here's the point. Often, investors get an idea in their mind -- e.g. this is a "bear" market -- and have a hard time changing their perception even in the face of new evidence that would suggest their perception is inaccurate. Psychologists call this "anchoring" and it has led many investors astray, according to Investopedia.

The key to overcoming anchoring is to keep an open mind, be willing to change, and utilize rigorous thinking.

So, no matter what animal you picked, whether it be bull, bear, turtle, sloth, or skunk, be alert to new information that may suggest that it's time to pick a new animal. As your advisor, we are mindful of the "anchoring" bias and we do our best to base our decisions on rigorous thinking and not on an outdated opinion.

Weekly Focus – Think About It

"To get all there is out of living, we must employ our time wisely, never being in too much of a hurry to stop and sip life, but never losing our sense of the enormous value of a minute."

--Robert Updegraff

Best regards,
Prestige Wealth Management Group

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 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.