

Weekly Commentary September 7, 2010

The Markets

Where does 2 + 2 = billions of dollars? In the stock market, of course!

Back in the “good ol’ days,” investment professionals would spend their waking hours poring over financial statements, developing financial models, and analyzing reports to try and find undervalued stocks. The thought was you could find stocks that were selling below their “intrinsic value,” and, if you held them long enough, you would likely earn a nice return. Warren Buffett exemplifies this style of investing, and he’s done pretty well with that strategy over the past 40 years.

But today, with an interconnected world filled with impatient “fast traders” and economic uncertainty, there seems to be a fixation on the latest data released by Washington or some other business group that has its pulse on a sector of the economy. Last week, we had two great examples of how the publication of certain data helped move the markets.

On Wednesday, the Institute for Supply Management said its closely watched index of factory activity rose to 56.3% in August from 55.5% in July, according to *The Wall Street Journal*. This number was better than expected and suggested the manufacturing sector of the economy was holding up well. A similar report on China’s manufacturing sector also showed an unexpected rise. Stocks reacted by jumping 2.5% that day as measured by the Dow Jones Industrial Average.

And on Friday, the government released the August nonfarm payroll report and it was better than expected, according to CNBC. Stocks jumped on the news and the Dow rose 1.2% as fears of continuing gloom in the job market eased a bit.

So, the release of two reports in two days, (the 2 + 2), helped the stock market as measured by the Dow soar 3.7% and add billions of dollars in market value, according to data from Wilshire Associates.

In this type of data-driven market, trigger-happy traders can help cause big swings -- both up and down -- that tempt some investors into thinking that either the end of the world is near or happy days are here again. Ultimately, two pieces of data in two days may help add (or subtract) billions in market value, but they are insufficient to discern a new trend. Intrinsic value still matters over time, and daily data, while helpful, is only part of the puzzle of investing.

Data as of 9/3/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	3.8%	-1.0%	8.7%	-9.5%	-2.2%	-3.1%
DJ Global ex US (Foreign Stocks)	4.7	-1.6	8.5	-9.1	1.6	1.1
10-year Treasury Note (Yield Only)	2.7	N/A	3.3	4.6	4.1	5.7
Gold (per ounce)	0.4	12.4	26.2	22.7	22.7	16.2
DJ-UBS Commodity Index	2.6	-3.0	9.2	-6.9	-4.7	2.1
DJ Equity All REIT TR Index	5.8	20.6	48.3	-4.5	2.0	11.1

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.

HOW THE RICH SPEND THEIR MONEY may have a big impact on the pace of our economic recovery. Consider this, the top 5% of Americans by income account for 37% of all consumer outlays, according to an August 5 *Wall Street Journal* article that was based on data from Moody's Analytics. At the other end of the spectrum, the bottom 80% by income account for 39.5% of all consumer outlays. So much for the 80/20 rule!

The share of spending by the top 5% has grown over the years, too. Back in the third quarter of 1990, the top 5% accounted for 25% of consumer outlays versus the 37% today, according to the *Journal* article.

In a 2005 research report, analysts at Citigroup coined the phrase "Plutonomy" to describe countries that exhibit significant income and wealth inequality. Plutonomies also are disproportionately dependent on the spending habits of the wealthy. According to that 2005 report, Citigroup classified the U.S., U.K., Canada, and Australia as Plutonomies.

So, if you want to know where the economy is heading—follow the money!

Weekly Focus – Think About It

"If you start small, dream big, plant a seed of intention, and care for it, it's not unrealistic to expect something marvelous to come up."

--Marc Ian Barasch

Best regards,

James T. Elias, MBA

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