

Weekly Commentary May 10, 2010

The Markets

Five little "PIIGS" went for a boat ride. The weather turned very stormy and "G" got tossed overboard without a life jacket. Shortly thereafter, "P" and "S" found themselves overboard and drowning in the water, too. Unable to mount an effective rescue, the other shipmates radioed for help. Fortunately, "EU" and "IMF" were available with a bigger boat and more rescue equipment. As the storm continued to rage, the "PIIGS" desperately waited for "EU" and "IMF" to arrive, hoping they would have the tools necessary to save them.

The above metaphorically describes what is happening in Europe. The "PIIGS" are Portugal, Italy, Ireland, Greece, and Spain. Water is code for government debt and largesse. "EU" is the European Union and "IMF" is the International Monetary Fund. The big question is, will the "EU" and the "IMF's" boat and tools be enough to complete the rescue, or will they be overwhelmed by the storm, too?

With the events of last week, world financial markets declared loud and clear that government debt levels in certain countries are unsustainable and have to be dealt with right now. Jolted into action by the gathering storm, the 16 euro nations and the IMF announced late Sunday evening a loan package worth nearly \$1 trillion to help stem the budding crisis, according to Bloomberg. This huge show of force may be enough to convince investors that the euro nations are serious about saving the weaker members, i.e., the "PIIGS."

The good news is that the U.S. is not the epicenter of this latest problem. That, coupled with an improving economy, may help the U.S. avoid the brunt of the pain.

Data as of 5/7/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-6.4%	-0.4%	19.6%	-9.7%	-1.2%	-2.5%
DJ Global ex US (Foreign Stocks)	-9.6	-8.7	19.1	-11.6	1.9	0.4
10-year Treasury Note (Yield Only)	3.4	N/A	3.3	4.6	4.3	6.6
Gold (per ounce)	2.0	8.9	31.8	20.7	23.1	15.8
DJ-UBS Commodity Index	-4.5	-7.6	7.8	-9.4	-3.3	2.5
DJ Equity All REIT TR Index	-6.6	10.3	62.7	-10.2	2.5	10.8

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 EVENTS OF LAST WEEK REMINDED INVESTORS that a significant drop in the markets can happen at any time. However, as described below, the U.S. has some positive momentum in place that may help it weather a new storm should one arise.

- First quarter corporate earnings were strong as 76% of the S&P 500 companies beat the average analyst profit forecast, according to Bloomberg. Strong earnings growth may provide support for stock prices.

- U.S. consumer spending hit an all-time high in March, finally surpassing the previous peak set in November 2007, according to the Commerce Department. Consumer spending accounts for 70% of gross domestic product so this could bode well for economic growth, according to Forbes.
- Job growth is finally occurring as the Department of Labor said nonfarm payroll employment grew by 290,000 in April, which was well above forecast. Earlier months were revised upward, too. Employment growth is a key driver of economic growth.
- Consumer borrowing posted an unexpected rise in March, which was only the second gain in 14 months, according to Associated Press. The rise may suggest consumers are feeling more confident and that could help the economy.

Today, the economy is on its way up from a devastating decline. With the layoffs in the past couple years, significant excess in the economy has been wrung out, which may set the stage for sustainable growth. As described above, many key economic indicators are pointing toward a strengthening economy. And, while it's true that the economy and the stock market can fall out of sync for periods of time, the fact that our economy seems to be heading in the right direction may help provide some underlying support for the stock market in the short term.

Weekly Focus – Think About It

"Worry gives a small thing a big shadow."
-- Swedish Proverb

Best regards,
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