

# Weekly Commentary

## January 4, 2010

### The Markets

It seems hard to believe that it was 10 years ago that we entered the new millennium. The world has certainly changed over that time.

The last decade began with the twin shocks of the unwinding of the tech stock bubble and the terrorist attacks on 9/11. Ironically, the unwinding of another bubble (housing) and additional terrorist attacks are still with us as we enter a new decade.

In the stock market, the 2000s were a disappointment. Stocks traded on the New York Stock Exchange lost an average of about 0.3% per year including dividends, which made the 2000s the worst decade in nearly 200 years of record keeping, according to data compiled by Yale University finance professor William Goetzmann. By contrast, gold, which was hardly even talked about in 2000, was the best-performing asset over the decade as it rose an average of more than 14% per year. During the 1990s, gold *lost* an average of 3% per year, according to *The Wall Street Journal*. What a difference a decade makes!

On the bright side, we ended 2009 on a major upswing as the S&P 500 index rose more than 23% for the year and a staggering 65% from its March 9 low, according to data from Yahoo! Finance. Treasury securities, by contrast, ended 2009 with a loss of 3.5%, according to Bloomberg. In 2008, the tables were turned as the S&P 500 index *declined* 38% while Treasuries *rose* 14%.

What will the next decade look like? Of course, nobody knows, but it's reasonable to think that we'll see some surprises – both good and bad. No matter what happens, we'll be doing our best to grow and protect your assets.

Data as of 12/31/09	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-1.0%	23.5%	23.5%	-7.7%	-1.7%	-2.7%
DJ Global ex US (Foreign Stocks)	0.7	39.7	39.7	-6.0	3.4	0.5
10-year Treasury Note (Yield Only)	3.8	N/A	2.2	4.7	4.2	6.4
Gold (per ounce)	-0.5	26.9	26.9	20.2	20.3	14.3
DJ-UBS Commodity Index	0.8	18.7	18.7	-5.8	-0.9	4.2
DJ Equity All REIT TR Index	-2.6	28.5	28.5	-12.2	0.5	11.0

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.

**“EVERY DOG HAS ITS DAY,”** according to the old saying and the dogs of 2008 certainly had their day (or year) in 2009.

Bespoke Investment Group looked at the 50 worst performing stocks in the S&P 500 index in 2008 and discovered that they rose on average 101% in 2009. Conversely, the 50 best performing

stocks in 2008 rose on average only 9% in 2009. Here's an interesting question. Let's say it's January 1, 2008 and you just happened to buy 100 stocks that day from the S&P 500 list and 50 of them turned out to be the 50 worst performers for the year and the other 50 turned out to be the 50 best performers for the year. If you bought and held those 100 stocks, which basket – the 50 worst from 2008 that turned out to be the best in 2009 or the 50 best from 2008 that underperformed in 2009 – would leave you with the most money at the end of 2009?

Remember, the 50 worst stocks from 2008 rose 101% in 2009 while the 50 best from 2008 rose only 9% in 2009. Do you have your guess as to which basket performed the best over the two-year period?

And, the answer is... we don't know. However, we can make an informed observation.

In 2008, the 15 worst stocks lost at least 87%, according to Bespoke Investment Group. This means that the stock that lost 87% in 2008 would still be down about 74% at the end of 2009 if it rose the average 101% in 2009 (e.g., a \$100 stock that loses 87% is worth \$13; if it rises 101%, it is worth only about \$26 at the end of year two). By contrast, the 15 best performing stocks in 2008 rose at least 11%. This means that the stock that rose 11% in 2008 would sport a two-year gain of about 21% if it rose the average 9% in 2009.

So, just looking at the 15 best and worst stocks from 2008, it appears that the 15 best stocks from 2008 would still be far ahead of the 15 worst stocks over the 2008-2009 period. In both stocks and alternative investments, quality matters.

This highlights the point that dramatic losses are difficult to recover from and that's why it is so important to focus on risk management.

## **Weekly Focus – Think About It**

“We will open the book. Its pages are blank. We are going to put words on them ourselves. The book is called Opportunity and its first chapter is New Year's Day.”

--Edith Lovejoy Pierce

Best regards,

Tony Hartman

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

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\* 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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