

## Weekly Commentary April 6, 2009

### The Markets

One-fourth of the year is now history so let's see what transpired in the financial markets.

Data as of 3/31/09	1 <sup>st</sup> Quarter	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-13.3%	-38.0%	-11.9%	-6.0%	-2.5%
DJ Wilshire Global ex US (Foreign Stocks)	-10.8	-48.4	-15.5	-3.2	-1.3
10-year Treasury Note (Yield Only)	2.7	3.4	4.9	3.8	5.2
Gold (per ounce)	5.4	-1.8	16.3	16.7	12.6
DJ/AIG Commodity Index	-6.4	-45.5	-12.7	-6.1	3.0
DJ Equity All REIT TR Index	-31.6	-57.9	-24.9	-8.5	N/A

Notes: S&P 500, DJ Wilshire Global ex US, Gold, DJ/AIG 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 available.

### STOCK MARKETS STARTED TO DIVERGE

In what some are interpreting as a positive sign, world stock markets started to chart an independent course in the first quarter. Unlike the fourth quarter of 2008 when virtually every stock market around the world declined, this quarter some country's actually had some winners this quarter.

#### Best and Worst Country Returns Based on the Dow Jones Global Indexes Ranked by U.S. Dollar Performance

##### Winners

Chile	14.7%
Russia	11.6
Sri Lanka	10.9
Brazil	10.8
Pakistan	10.7

Source: Dow Jones Indexes

##### Losers

Malta	-27.9%
Iceland	-27.2
Qatar	-25.8
Bulgaria	-23.2
Slovakia	-21.8

Source: Dow Jones Indexes

Overall, the Dow Jones Wilshire Global Index, excluding the U.S., dropped about 11% during the quarter, as indicated in the box score above.

## **CREDIT MARKETS ARE NOT BACK TO NORMAL**

The government certainly understands that a fully functioning credit market is critical to our economic recovery and they've been trying a number of actions to thaw the ice jam. On the short-end of the yield curve, they've had some success as some companies and banks have been able to tap the short-term markets to meet their immediate funding needs, according to *The Wall Street Journal*. Companies in distress, though, have been pretty much shut out as investors have shown little appetite for buying new high-yield bonds.

At the long-end of the yield curve, interest rates rose this quarter. That's good news for savers, but bad news for companies trying to lower their interest charges. On the plus side, the government did have success in helping lower mortgage rates. The average 30-year fixed mortgage rate finished the quarter near 5% and that's spurred a new round of refinancing. If you have a mortgage rate significantly higher than that, it may be wise to consider a refinance and lock in a lower rate.

There are two points of concern that we'll watch to see how they unfold going forward. First, the markets reacted positively when it was announced that the Fed stepped in to buy our own Treasuries. This is the first time in history this has happened. The market interpreted this as "the government will do whatever it takes to restart the credit markets". It's possible that the real reason this was done was because there was little appetite for our Treasuries from the rest of the world. Secondly, the gathering of the G20 leaders in London, did not produce any big coordinated fiscal boost; but it did coincide with the announcement of more than a trillion dollars of global stimulus to the International Monetary Fund (IMF).

## **COMMODITIES WERE MIXED**

The DJ AIG Commodity Index slid 6.4% for the quarter, but that masked some nice gains in a handful of its components. Gold finished the quarter up just over 5%. Silver rose 15%. Crude oil tacked on 11% while gasoline futures soared 39%, according to *The Wall Street Journal*. And good old Dr. Copper sprinted ahead by 32%, perhaps presaging a budding economic recovery.

Agricultural commodities were mostly down for the quarter as corn fell fractionally, soybeans fell 2.1% and wheat gave up 13%. Some analysts think the upcoming stimulus dollars will eventually drive commodity prices higher. Others think it will take a pickup in industrial demand to drive prices higher. One thing we can say with certainty is we all still need to eat and the world population is growing so there will always be some demand for agricultural products.

## **THE DOLLAR IS HANGING TOUGH**

Some analysts have warned that the government's massive stimulus programs and expansionary monetary policy will lead to a debasement of the dollar. But, it hasn't happened yet. During the first quarter, the dollar strengthened 5% against the euro, 9% against the Japanese yen, and 4% against a trade-weighted basket of 16 currencies tracked by J.P. Morgan Chase, according to *The Wall Street Journal*.

In the short term, the dollar's strength may confound its critics because of the theory of relativity. No, we're not talking Einstein here. The idea is that almost all countries are going through difficult economic times right now and, on a relative basis, the U.S. is perhaps no worse off than any other country. And in some cases, we may be better off, so our currency is still being used as a "safe haven" and could remain strong in the short term - even with all the government spending.

Ironically, the government – although they likely won't say it publicly – may want the dollar to weaken so it would make our exports more attractive and help revive our economy. It's clearly a delicate balance between doing what's good for the U.S. and keeping in mind that we live in a global economy so we can't upset our trading partners.

## **SUMMARY**

In the closing days of the quarter, stock markets around the world rallied amid early signs of an economic recovery. Whether this is a head fake or the start of something bigger and more lasting won't be known for a long time. Rising unemployment is still a major problem and that may not ease until 2010. Near term we have earnings being reported and much of this news is not expected to be good. What will be more important is the earnings expectations six months down the road. Later this year, some stimulus dollars will start flowing through the economy and that may help cushion the blow of weak labor markets.

Ultimately, the sun will rise tomorrow and we expect our economy to eventually get back on track. It may take longer than many people expect.

## **Weekly Focus – Think About It**

“Your time is limited, so don't waste it living someone else's life. Don't be trapped by dogma – which is living with the results of other people's thinking. Don't let the noise of others' opinions drown out your own inner voice. And most important, have the courage to follow your heart and intuition. They somehow already know what you truly want to become. Everything else is secondary.”

-- Steve Jobs

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.

\* Gold represents the London afternoon gold price fix as reported by [www.usagold.com](http://www.usagold.com).

\* The DJ/AIG 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 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.

\* 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.

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