

Weekly Commentary

April 26, 2010

The Markets

A trillion here, a trillion there, pretty soon we're talking serious money.

Between the October 2007 all-time high and the February 2009 low, world stock market valuation declined from \$63.0 trillion to \$28.6 trillion, according to the World Federation of Exchanges. That's a drop of \$34.4 trillion or 54.6% in just 16 months--serious money, indeed. Almost as remarkable, world stock markets started rebounding in March 2009 and by March 2010, they had climbed back to \$49.1 trillion in valuation, which represents a 71.7% increase from the low. That's a rise of \$20.5 trillion in 13 months and leaves us "just" \$13.9 trillion short of the October 2007 all-time high.

Many pundits in print, TV, and online have wondered how the economy is showing surprising strength in the face of near double-digit unemployment. One simple answer is that our world still has tremendous wealth in the form of equity investments. As described above, world stock market valuation has risen \$20.5 trillion since the low and this has helped investors/consumers feel wealthier. And, in a little known fact, world stock market valuation at the end of last month was \$12.7 trillion *higher* than it was five years ago. According to a concept called the "wealth effect," as investment wealth increases, consumers feel more secure and they start spending more.

So, even though the U.S. unemployment rate is high, overall world wealth in the form of equity investments is in decent shape and the trend over the past year has been up. This "equity wealth" is helping support worldwide economic activity.

Data as of 4/23/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	2.1%	9.2%	40.5%	-6.3%	0.9%	-1.6%
DJ Global ex US (Foreign Stocks)	-1.2	2.4	46.7	-7.7	4.2	1.4
10-year Treasury Note (Yield Only)	3.8	N/A	2.9	4.7	4.3	6.0
Gold (per ounce)	-1.0	3.2	27.0	18.3	21.4	15.1
DJ-UBS Commodity Index	0.7	-2.3	24.0	-7.8	-2.9	3.4
DJ Equity All REIT TR Index	7.1	18.9	77.8	-8.8	4.9	12.1

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.

ONE THING THAT SPORTS AND THE STOCK MARKET HAVE IN COMMON is that momentum frequently determines who wins or loses. Athletic teams that get on a roll often end up winning because "momentum" is on their side. Likewise, similar to Newton's first law of motion, the stock market can stay in a trend for a long time until something substantial comes along to knock it off course.

Recent upward momentum in the stock market has been very strong. In fact, the 14-day relative strength index (RSI) on the S&P 500 closed above 65 for 29 consecutive days ending April 15--its longest such streak above 65 in 24 years, according to Bloomberg. The RSI is a technical indicator that measures the speed and change of price movements (i.e., momentum) and it fluctuates between 0 and 100, according to StockCharts.com. Readings in the 65 area indicate solid upward price momentum.

Why should you care about this idea of momentum?

It's important because momentum can help determine the underlying strength of the market. When the market is showing broad-based momentum, it often takes something significant to change its course.

This does not mean the market will go up in a straight line during periods of strong momentum. For example, the S&P 500 dropped 1.6% on April 16 when the government announced it was charging Goldman Sachs with fraud. But, it turns out that there was enough underlying strength in the market that it only took five trading days for the S&P 500 to recoup all of its Goldman-led losses, according to data from Yahoo! Finance.

Technical indicators like the RSI are certainly not foolproof. However, they may be helpful in assessing the near-term strength of the market and its susceptibility to corrections.

Weekly Focus – Think About It

"I never predict. I just look out the window and see what is visible--but not yet seen."
-- Peter Drucker

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.
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