

Weekly Commentary July 6, 2009

The Markets

Now that we've passed the halfway mark in 2009, let's review what transpired in the financial markets.

Data as of 6/30/09	2 nd Quarter	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	15.2%	1.8%	-28.2%	-10.2%	-4.2%	-3.9%
DJ Global ex US (Foreign Stocks)	27.4	13.6	-32.4	-8.1	2.0	0.6
10-year Treasury Note (Yield Only)	3.5	N/A	4.0	5.1	4.6	5.8
Gold (per ounce)	2.0	7.4	0.5	15.1	18.7	13.6
DJ-UBS Commodity Index	11.6	4.5	-47.4	-10.9	-3.2	4.0
DJ Equity All REIT TR Index	28.9	-11.9	-42.9	-17.8	-2.5	N/A

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 available.

STOCK MARKETS SOAR

The carnage of 2008 and the first quarter of 2009 was followed by a blistering run for most of the second quarter. According to *The Wall Street Journal*, every country in the Dow Jones Global Index experienced a positive return in the second quarter. Here are some of the winners.

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

Winners

Sri Lanka	74.2%
Hungary	66.1
India	62.9
Indonesia	62.4
Cyprus	58.3

Source: Dow Jones Indexes

Other Notables

China	36.1%
Canada	29.1
U.K.	25.5
Germany	21.2
U.S.	16.1

Source: Dow Jones Indexes

Overall, the Dow Jones Global Index, excluding the U.S., rose 27.4 % during the quarter, as indicated in the box score above. Notice that many of the top performing stock markets in the second quarter were in emerging countries.

CREDIT MARKETS DIVERGED

In 2008, investors fled to the relative safety of U.S. government securities and this helped propel the Morningstar Long-Term US Government Bond index to a 28 % gain. In the second quarter of 2009, some investors decided it was time to reverse that trade and put money back to work in the stock market. As a result, stock prices rose and the Morningstar bond index dropped about 9 % in the second quarter and 15 % for the first six months of the year. While government bonds declined in value, corporate bonds rose as investors reached for extra yield. The Morningstar Long-Term Corporate Bond index rose almost 10 % in the second quarter while the Merrill Lynch High-Yield Bond index rose an astounding 23 %.

The paradoxical lesson here is that “you may pay a high price for the safety of U.S government securities.” In 2008, seeking shelter in Treasury securities paid off. In 2009, it was a different story as many investors decided to move further out on the risk spectrum. Whether this latest move to add risk ultimately pays off is yet to be determined.

COMMODITIES WERE MIXED

The DJ-UBS Commodity Index rose a solid 12 % for the quarter.

While many commodities showed solid gains in the second quarter, some of them are still down substantially from their highs in 2008. In order for the commodities rally to continue, we may need to see definitive signs that the worldwide economy is on a new growth track. The odds of that happening seem to be slipping a bit here recently, especially in light of the weaker than expected June U.S. employment report.

THE DOLLAR FINALLY CRACKED...A BIT

For some time, some analysts have warned that the government’s massive stimulus program and expansionary monetary policy will lead to a debasement of the dollar. In the second quarter, we finally saw a crack in the dollar’s armor. According to *The Wall Street Journal*, the dollar dropped 5.3 % against the euro, 2.7 % against the Japanese yen and 14.7 % against the British pound. It also fell 5.5 % against a trade-weighted basket of currencies tracked by J.P. Morgan Chase.

As the worldwide economy started to stabilize (albeit at a much lower level) in the second quarter, currency investors began to focus on the super-low government interest rates in the U.S. That may have been one factor in the recent weakness in the dollar. If worldwide economic growth resumes, that could put continued pressure on the dollar. If the economy goes into another tailspin or the financial markets take it on the chin again, we could see the dollar strengthen as a flight to safety resumes. In other words, as goes the economy, so goes the dollar.

SUMMARY

As the quarter drew to a close, most investors felt the risk of financial Armageddon was now off the table. This factor alone may have been a major contributor to the re-pricing of stock prices that took place since March 9, 2009. With that said, it is too soon to flash the all-clear signal. It took us years to get the country into this financial mess and it may take us years to get out of it.

STAY TUNED

Our clients will soon receive a special invite to: [The Half-Time Report](#). At this event, we will review the first half of the year, what strategies were favored by the economic environment, and most importantly, what strategies we expect to be best positioned for the second half of the year. Look for invites in your mail box shortly.

DID YOU KNOW

Most people believe they can only move money from their 401K after they have retired or left the payroll of their current employer. Sometimes true, sometimes not. The IRS does allow existing employees to rollover their 401Ks tax-free to an IRA through what is called an In-Service Distribution. Some employers allow this for their 401K, others don't. The best way to find out is to call your Benefits Office and ask them what the procedure is to do an In-Service Distribution.

Weekly Focus – Think About It

“Freedom has its life in the hearts, the actions, the spirit of men and so it must be daily earned and refreshed - else like a flower cut from its life-giving roots, it will wither and die.”

-- Dwight D. Eisenhower

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.

* 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 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.
- * Past performance does not guarantee future results.
- * You cannot invest directly in an index.
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