

## Weekly Commentary August 3, 2009

### The Markets

Here we go again making another comparison to The Great Depression. Only this time, it's a positive comparison.

For the five months ending last Friday, *the S&P 500 had its best performance streak since The Great Depression year of 1938*, according to Reuters. During these five months, the S&P 500 index rallied 34%. Yet, despite this tremendous rise, losses between January and early March of this year limited the S&P's year-to-date gain to 9.3%, according to data from Yahoo! Finance.

Several factors helped propel this rally including a normal bounce back from a deep correction, better than expected quarterly earnings, and "less bad" economic news. Rallies like this also tend to feed on themselves as trend followers jump on board and help push prices higher.

Interestingly, corporate insiders have been big sellers during this rally. According to Vickers Weekly Insider Report as reported by MarketWatch, the ratio of insider selling to insider buying over the past few weeks was at its highest level since the fall of 2007 – right before the bear market began. Although not foolproof, this suggests corporate insiders are less sanguine about the future of this rally.

Corporate insiders notwithstanding, this has been a powerful rally. Only time will tell if it continues into the fall or rolls over into a new leg down. Either way, we're doing our best to help you preserve capital and generate profit strategies as appropriate.

Data as of 7/31/09	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.8%	9.3%	-21.7%	-8.2%	-2.3%	-2.9%
DJ Global ex US (Foreign Stocks)	2.5	24.1	-23.2	-5.6	4.5	1.3
10-year Treasury Note (Yield Only)	3.5	N/A	4.0	5.0	4.5	5.9
Gold (per ounce)	-1.3	8.3	2.3	14.1	19.1	13.9
DJ-UBS Commodity Index	2.6	7.9	-38.3	-10.8	-2.8	4.1
DJ Equity All REIT TR Index	3.6	-2.7	-39.2	-16.0	-1.0	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.

**ARE WE HEADING TOWARD INFLATION OR DEFLATION** over the next few years?  
The answer to this question may have significant portfolio implications.

With the economy having just completed four consecutive quarters of negative GDP growth, it's hard to imagine that inflation could be a potential problem – but it is. Thanks to the government's massive monetary and fiscal stimulus, all this money sloshing through our

economy has the potential to juice it so much that we end up with double-digit inflation and a weak dollar.

Deflation, on the other hand, is possible, too. With unemployment near double-digits, consumer spending subdued, banks being tightfisted, and our industrial complex operating way below capacity, we could end up in a circle of declining prices that overwhelms the government's stimulus efforts. Some experts say deflation in the short term; significant inflation in the longer term.

From a portfolio standpoint, here's the rub. Conventionally, investments that have historically performed well in an inflationary environment may not necessarily do well in a deflationary environment and vice versa.

So, what's an investor to do?

Ben Bernanke, Chairman of the Federal Reserve, is on the record as saying the government, "...would take whatever means necessary to prevent significant deflation in the United States." From a political standpoint, some inflation is preferable because it allows the government to pay back its debts with cheaper dollars. Given the government's comments and the political benefit to inflation, it's reasonable to conclude that if the government errors, they are more likely to error on the side of inflation rather than deflation.

However, from an investment standpoint, putting all your eggs in an inflation-based portfolio would be risky. A more prudent strategy may be to include some asset classes that could benefit from inflation and some that could benefit from deflation and then monitor those assets closely to see which scenario unfolds. Another good approach is to choose asset classes -- typically those backed by hard assets -- which would benefit from longer term inflation, but would continue to generate solid cash flows to investors during the near-term deflation.

Successful investing is never easy and it is issues like the inflation/deflation question that are especially vexing. While you may find this issue boring, it excites us and is one example of why you have us on your team. Please be assured that we are doing all we can to find the smoothest route possible through this potential white water issue.

I had a recent trip to Pittsburgh to meet with some of the nation's top elder law attorney's and discuss new retirement strategies for the huge wave of baby boomers just starting retirement. At that meeting, I had the opportunity to meet one of the truly great American heroes of our time. Rocky Bleier received a Congressional Purple Heart after he was wounded in combat in Vietnam. Then, after his recovery, he helped lead the Pittsburgh Steelers to four Super Bowl championships. Rocky has been doing a great deal of work in Washington to help maintain and expand support for our Nation's veterans. In the photo below, Rocky and I are in Pittsburgh...with yours truly wearing his four Super Bowl rings.



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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