Weekly Commentary
September 21, 2009

A CONCEPT KNOWN AS "ANCHORING" may influence whether the stock market is due for a correction or not. In a famous 1974 paper titled, *Judgment Under Uncertainty: Heuristics and Biases*, Amos Tversky and Daniel Kahneman defined anchoring as follows:

In many situations, people make estimates by starting from an initial value that is adjusted to yield the final answer. The initial value, or starting point, may be suggested by the formulation of the problem, or it may be the result of a partial computation. In either case, adjustments are typically insufficient. That is, different starting points yield different estimates, which are biased toward the initial values. We call this phenomenon anchoring.

As it relates to the stock market, what you pick as your "initial value" may greatly influence whether you are bullish or bearish right now. Let's illustrate this point using two hypothetical investors.

I. M. Bearish picks the March 9, 2009 bear market low close of 676 on the S&P 500 index as his initial value. This is his anchor.

I. M. Bullish picks the October 9, 2007 all-time closing high of 1,565 on the S&P 500 index as her initial value, and, hence, her anchor.

From the standpoint of I. M. Bearish, he looks at the 58% increase in the S&P 500 index between the March 9 low and last Friday and says, "After that incredible rise, this market is way overdue for a correction." Conversely, I. M. Bullish looks at the 31% decline in the S&P 500 between the October 9, 2007 high and last Friday and says, "This market has lots of room to soar since it is still well below its all-time high."

The concept of anchoring is critically important for investors because where you plant your anchor could either limit or expand your ability to understand extreme moves in the market. Anchoring on the March 9 low makes it difficult to fathom that the market can keep moving higher. Anchoring on the October 9 all-time high gives you the green light to think it can keep going up.

Anchoring applies to life, too. Dwell on an unhappy past and you are effectively tossing your anchor in a stormy sea. Focus on the possibility of a bright future and you are effectively setting sail in the azure waters of an exotic location. Some people might simply call this being a pessimist or an optimist.

Knowing where to "anchor your anchor" could be the difference between success or failure – in the markets and in life.

THE LARGEST TAX HIKE EVER

Doug Casey writes about the Largest Tax Hike Ever in his latest research report. His words below are important for Americans to understand…..

“The Bush tax cuts – people didn’t need them, and they weren’t even asking for them, and that’s why they need to be less, so that we can pay for universal health care and other initiatives,” Obama said in a June 2007 Democratic debate.

I don’t know about you, but pretty much every – no every – person I know, come mid-April complains about how high taxes are. Ergo, people, at least most of the ones I know, are always asking for tax cuts and they do need these cuts to support *their* families with *their* income.

President Obama’s senior economic advisor, Lawrence Summers, made it clear on NBC in January that any idea of renewing the Bush tax cuts, currently set to expire in 2010, is a dead issue.

So how will the expiration of these cuts at the end of the next year affect you?

Before we answer that, let’s take a look at exactly what is changing with respect to individual income taxes.

- The 10% bracket will increase to 15%
- The 25% bracket will increase to 28%
- The 28% bracket will increase to 31%
- The 33% bracket will increase to 36%
- The 35% bracket will increase to 39.6%

On the surface these may look like small hikes – between 3 and 5 percentage points. But the effect these increases have on the amount you pay is much greater.

Consider that jumping the 25% bracket to the 28% bracket (a rise of 3 percentage points) results in 12% higher taxes. Don’t believe me? Let’s quickly check the math.

If you’re an individual currently in the 25% tax bracket, you make between $33,950 and $82,250 per year. For simplicity, let’s say you’re somewhere in the middle, at $50,000 per year. And we’re not going to consider deductions because that muddles a simple issue.

So if you are making $50,000 a year and are in the 25% tax bracket (not counting deductions), you’d pay income taxes of $12,500. But if you make that same $50,000 and are taxed at 28%, your tax burden is 14,000. This reflects an increase in the amount you have to pay of 12%.

Back to the bullet points above. Let’s go through the list one more time and show the increase in tax burden.

- The 10% bracket will increase to 15%...a tax burden hike of 50%
- The 25% bracket will increase to 28%... a tax burden hike of 12%
- The 28% bracket will increase to 31% … a tax burden hike of 10.7%
- The 33% bracket will increase to 36% ... a tax burden hike of 9.1%
- The 35% bracket will increase to 39.6% … a tax burden hike of 13.1%

Even though the administration said it would not raise taxes on the poor or middle class, by letting the Bush tax cuts expire, that’s exactly who is going to be impacted the most. For the year 2011, the tax burden of the lowest-wage earners in the country will climb a whopping 50% from where it is today.

As far as I know (and I admittedly have not been able to do all the necessary research yet), by letting the Bush tax cuts expire at the end of 2010, the administration will in effect be responsible for the largest tax hike in history. And that's before cap-and-trade and healthcare legislation are considered.

If we haven't yet discussed your tax situation and how to maximize the number of tax deductions you may be eligible for, call our office.

The Markets

Data as of 9/18/09	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	2.5%	18.3%	-14.9%	-6.8%	-1.0%	-2.2%
DJ Global ex US (Foreign Stocks)	1.6	36.5	3.3	-3.0	6.0	1.9
10-year Treasury Note (Yield Only)	3.5	N/A	3.4	4.8	4.1	5.9
Gold (per ounce)	0.4	16.4	17.3	20.4	20.1	14.8
DJ-UBS Commodity Index	3.0	8.8	-25.8	-7.2	-2.6	3.6
DJ Equity All REIT TR Index	8.6	22.4	-28.4	-10.9	2.6	10.1

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.

Weekly Focus – Think About It

"When one door closes another door opens; but, we so often look so long and so regretfully upon the closed door, we do not see the ones which open for us."
-- Alexander Graham Bell

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.

* 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.
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