

## Weekly Commentary October 5, 2009

### The Markets

As we enter the home stretch for 2009, let's review what transpired in the financial markets over the past three months.

Data as of 9/30/09	3 <sup>rd</sup> Quarter	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	15.0%	17.0%	-9.4%	-7.5%	-1.1%	-1.9%
DJ Global ex US (Foreign Stocks)	19.2	35.3	4.3	-3.6	5.7	1.9
10-year Treasury Note (Yield Only)	3.3	N/A	3.8	4.6	4.1	5.9
Gold (per ounce)	6.6	14.5	12.6	18.4	19.1	12.8
DJ-UBS Commodity Index	4.2	8.9	-23.9	-7.2	-3.6	3.3
DJ Equity All REIT TR Index	33.2	17.4	-28.1	-12.2	1.6	9.8

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.

### STOCK MARKET RALLY CONTINUED

Rising a stunning 15.0%, the S&P 500 scored its largest quarterly gain since 1998, according to *The Wall Street Journal*. International markets did well, too, as the Dow Jones Global Index, excluding the U.S. Total Stock Market Index, rose 19.2% in the third quarter. The gains reflected continued improvement in some aspects of the worldwide economy, as well as anticipation that the improvements will continue.

Year-to-date, worldwide stock market returns have been remarkable. Since the March 9 low, global stock markets have added about \$20 trillion in market value, according to an October 4 Bloomberg article. Now that's what we call "stimulus!" Here are some of the winning markets over the past three months.

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

##### Winners

Country	Percentage
Lithuania	71.0
Estonia	50.3
Hungary	39.1
Peru	35.6
Cyprus	35.6

Source: Dow Jones Indexes

### Other Notables

Country	Percentage
Brazil	29.0
Russia	26.3
India	18.3
U.K.	17.7
China	10.0

Source: Dow Jones Indexes

## INTEREST RATES DROPPED

Disappointed with low short-term rates and meager returns from CDs and money market accounts, many investors fled the short-end of the yield curve and moved out to the longer – and riskier – end. So far, that has paid off as bond prices generally rose in the third quarter, according to *The Wall Street Journal*.

If inflation becomes a problem or the dollar goes into a freefall, you could see interest rates reverse course and start to rise. Of course, that could lead to a potential setback for the economy so the government is trying to walk a fine line between flooding the economy with liquidity – to help it grow – but not flooding it too much that it would lead to rampant inflation.

With the significant decline in most interest rates over the past few months, investors appear comfortable with how the government has walked this fine line. However, there is a definite concern that down the road, perhaps one to three years from now, we could be in for inflation that rivals the worst of the late 1970s/early 1980s period.

## THE VALUE OF THE DOLLAR DECLINED

Big budget deficits, concerns about inflation, and a desire for riskier assets helped push down the value of the dollar last quarter. According to *The Wall Street Journal*, the dollar dropped 4.1% against the euro, 6.8% against the Japanese yen, and 9.5% against Australia's currency.

In an August 18 op-ed piece in the *New York Times*, Warren Buffett opined that a continued rise in the debt-to-G.D.P. ratio could cause the U.S. dollar to “melt.” When Buffett gets involved, you know it's time to take notice. Fortunately, if the dollar does liquefy beyond recognition (i.e., “melt”), other investments, generally backed by hard assets, may rise in value and we would do our best to position for that accordingly.

## CONCERNS

On Sept 30 2009, the FDIC announced that they had exhausted their reserves after having taken over more than 90 banks so far this year. A plan was hatched that would essentially invoice the healthy banks for their FDIC insurance premiums – for the next three years – and have it all due and payable now. Estimates are that would replenish FDIC reserves back to \$45 billion. According to the FDIC, this amount, along with a \$100

billion Line of Credit from the Federal Reserve, would be sufficient to see them through. Time will tell if the upcoming problems with some commercial real estate sectors (office, retail, and shopping centers), double digit credit card default rates, and continued mortgage foreclosures in many parts of the country, will overwhelm these reserves or if they are sufficient.

## **SUMMARY**

To say it's been a wild ride in the financial markets this year is an understatement. We started the year with a massive decline and then after March 9, the markets exploded to the upside on faint signs of economic stabilization. While parts of the economy are working better than others, unemployment is staying painfully high. Some economists expect unemployment to hit or exceed 10.0% before it starts falling and that presents some strong headwinds for the markets in coming months. We also are concerned that the fundamental debt imbalance problems that started the massive declines are still in place.

## **Weekly Focus – Think About It**

“In times of change, learners inherit the Earth, while the learned find themselves beautifully equipped to deal with a world that no longer exists.”

-- Eric Hoffer

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.

\* Past performance does not guarantee future results.

\* You cannot invest directly in an index.

\* Consult your financial professional before making any investment decision.

\* To unsubscribe from the **Weekly Commentary** please email us at: [team@DenverFinancialGroup.com](mailto:team@DenverFinancialGroup.com)

Securities and advisory services offered through Madison Avenue Securities, Inc. (MAS) a registered investment advisor, member FINRA & SIPC. MAS and Denver Financial Group are not affiliated companies.