

Weekly Commentary October 19, 2009

The Markets

The good news is the Dow Jones Industrial Average rose above 10,000 last week. The bad news is it first rose above 10,000 more than 10 years ago – March 1999 to be specific.

A lot has changed in those 10 years! Let's look at a few differences between 1999 and today, according to Peter Boockvar, equity strategist at Miller Tabak as reported in a Yahoo! Finance article.

- Total U.S. public debt was about \$5.6 trillion back in March 1999 versus about \$12.0 trillion today, according to the Treasury Department. By contrast, U.S. gross domestic product has only grown from \$11 trillion in 1999 to about \$13 trillion today.
- In fiscal 1999, the U.S. had a budget *surplus* of \$125 billion. In fiscal 2009, we had a budget *deficit* of \$1.4 trillion, according to the Congressional Budget Office.
- Unemployment was 4.2% in March 1999. Last month it was 9.8%, according to the Bureau of Labor Statistics.
- The value of the U.S. dollar has dropped about 25% since 1999 against a basket of currencies. This means that it costs us about 25% more to buy foreign denominated goods and services than it would have had the dollar maintained its value.
- The DJ-UBS Commodity index was in the upper 70s in March 1999. Last week it closed at 134, which indicates prices for commodities have risen significantly, according to Dow Jones.
- Gold was about \$280 per ounce in early 1999. Today it is over \$1,000.
- Oil was selling for about \$16.50 a barrel in early 1999. Today it is over \$75 a barrel.

The numbers above show that as our country has gone deeper into debt over the past 10 years, the stock market has flat lined and the value of the dollar has declined significantly, while hard assets such as gold and oil have more than tripled in value and commodities in general have risen in the high double digits. Unlike in the “rock, paper, scissors” game of our childhood, the financial markets are telling us rock (hard assets) beats paper (currency and IOUs).

Data as of 10/16/09	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.5%	20.4%	15.6%	-7.4%	-0.5%	-1.4%
DJ Global ex US (Foreign Stocks)	1.5	39.5	39.2	-3.4	6.1	2.4
10-year Treasury Note (Yield Only)	3.4	N/A	3.9	4.8	4.1	6.1
Gold (per ounce)	-0.4	20.4	30.5	20.7	20.1	12.9
DJ-UBS Commodity Index	4.0	14.6	-0.9	-7.2	-2.6	4.0
DJ Equity All REIT TR Index	-1.3	15.8	1.2	-13.9	0.4	10.0

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.

CHICAGO LOST ITS BID to host the 2016 Olympics, but the federal government is running its own kind of Olympian relay race. This metaphorical four-person relay team consists of the federal government competing against a spiraling downward economy. Seeking to get off to a fast start, the federal government ran the first leg and pushed through a \$787 billion stimulus program last February. With dollars in hand (the “baton”), the federal government handed off to not one, but two runners for the second leg – corporate America and state and local governments. Figuring that growing businesses and growing state and local governments would lead to job creation, the federal government hoped that more jobs would lead the final runner in the relay race – the consumer – to start spending and sprint to victory over the declining economy.

So, who’s winning the relay race? The short answer is, the race still has a ways to go, but the federal government’s team is, at the moment, in the lead.

Like it or not, the stimulus package, coupled with ultra low interest rates, appears to have helped arrest the slide in the economy, but may have simply pushed the “day of reckoning” further into the future – kicked the can down the road.. Corporate America is on a roll as 79% of the companies that have reported third quarter earnings are beating estimates, according to CNBC. Taking a cue from the improving earnings picture, stocks are up dramatically since the March 9 low. However, much of the “exceeding earnings estimates” has been attributed to very low earnings expectations after the crash, and most earnings growth has come from cost cutting, not from top line revenue growth. State and local governments are generally still hurting so that’s a weak link. And then there’s the consumer.

With unemployment at 9.8%, it’s hard to imagine that consumers can run a strong final leg. Consumer spending accounts for roughly 70% of economic activity, according to CNBC, so in order to win this race, consumers need jobs that allow them to spend money.

The big unanswerable question is, “What happens to the economy after the stimulus runs out?” Will the economy have enough momentum to grow on its own or will it slip back into recession? Judging by the surging stock market, investors seem to think we’ve filled the government relay team with enough juice to keep them on a path to victory. Since the race is still in progress, we need more time to determine if the juice was “nutritional” enough to ensure victory or spiked with sugar that leads to bonking on the final lap.

Weekly Focus – Think About It

“Thrift comes too late when you find it at the bottom of your purse.”
-- Seneca

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.
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