

Weekly Commentary

November 9, 2009

The Markets

Take your pick – gold surging past \$1,100 an ounce, the jobless rate hitting double digits, Warren Buffett's, "all-in wager on the economic future of the United States," a 3.2% rise in the S&P 500 index – there was something for everyone last week in the economy and the financial markets.

The price of the shiny yellow metal keeps on rising despite little sign of near term rampant inflation or extraordinary fear in the markets. Prices jumped last week on news that India purchased 200 metric tons of gold from the International Monetary Fund as a way to diversify its foreign-exchange reserves. Gold bulls took that as a cue to get on the gold bandwagon. The last time that the price of gold per ounce was higher than the S&P 500 index was 1973.

The jobless rate and the economy seem to be living in alternate universes. The economy grew 3.2% in the third quarter, yet the jobless rate continued to spike, hitting a rate not seen since the early 1980s. Yes, they say employment is a lagging indicator, but, at some point, we have to start seeing a net increase in jobs or else we risk a double-dip recession. The rate reported by the Government was 10.2%; the actual unemployment rate is closer to 17% -- if you include the people who have given up looking for work, those that choose to go back to school because they can't find work, and those that are under-employed (e.g. a former software engineer now working part time at Starbucks).

Warren Buffett made perhaps the last major purchase of his lifetime by agreeing to acquire the remaining shares of Burlington Northern Santa Fe Corporation that he did not already own in a \$44 billion deal. Surprisingly, for a debt-adverse investor, he will borrow roughly \$8 billion to complete the deal.

And the stock market? No matter the news, it seems to take it all in stride as the Dow Jones Industrial Average closed above the 10,000 mark. The bulls are making it difficult for the bears to find an opening. This is very similar behavior to the stock market of late 1999. Do you remember what happened starting in March 2000?

| Data as of 11/6/09 | 1-Week | Y-T-D | 1-Year | 3-Year | 5-Year | 10-Year |
|---|---------------|--------------|---------------|---------------|---------------|----------------|
| Standard & Poor's 500 (Domestic Stocks) | 3.2% | 18.4% | 14.9% | -8.1% | -1.7% | -2.5% |
| DJ Global ex US (Foreign Stocks) | 1.7 | 35.8 | 34.8 | -5.0 | 4.3 | 1.5 |
| 10-year Treasury Note (Yield Only) | 3.5 | N/A | 3.7 | 4.7 | 4.2 | 5.9 |
| Gold (per ounce) | 5.5 | 26.1 | 45.4 | 20.5 | 20.5 | 14.3 |
| DJ-UBS Commodity Index | -0.3 | 12.1 | 2.2 | -8.3 | -2.8 | 4.0 |
| DJ Equity All REIT TR Index | 0.2 | 12.4 | 15.5 | -14.3 | -0.5 | 9.4 |

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.

THERE IS A FINE LINE between having the conviction to stick to an investment position that is temporarily going against you versus being flexible enough to change your mind as the situation changes. When the facts change, I change my mind. When the facts change for your situation, you should also have the flexibility to change your mind. Knowing how to discern that line is an important part of successful investing.

Before you make an investment, here are three things you should know:

1. The rationale or thesis behind your investment.
2. The level at which your investment would become “fully valued.”
3. What would have to happen for you to realize that your rationale or thesis was no longer valid.

Having clarity on those three items makes it easier for you to know where that line between conviction and flexibility lies.

Since nobody knows for certain what the future holds, we have to review the data as it arrives. If that data is materially different from our original thesis and the market is responding to it, then that will likely cause us to change our mind. This concept of conviction versus flexibility is something we are conscious of and we use it to help us be better – and more flexible – investment strategists.

Weekly Focus – Think About It

“An oak and a reed were arguing about their strength. When a strong wind came up, the reed avoided being uprooted by bending and leaning with the gusts of wind. But the oak stood firm and was torn up by the roots.”

-- Aesop

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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