Weekly Commentary
December 14, 2009

The Markets

One of the popular parlor games on Wall Street these days is trying to predict how the holiday shopping season will fare. If sales rise from last year, that may bode well for the economy heading into 2010. If sales drop, well, that's not such a good sign.

Like many things related to Wall Street investing, you could do exhaustive, detailed analysis to come up with a prediction, or, you could pick one indicator that has some historical significance and run with that. As it relates to predicting holiday sales, it turns out that, "Christmas tree sales can be a good gauge of the strength of the holiday-shopping season," according to *The Wall Street Journal*.

So far, this simple indicator looks positive. Christmas tree sales were up 6% the weekend after Thanksgiving and 3% the following weekend when compared to the year earlier period, according to ISI Group survey data as reported by the *Journal*.

Helping to corroborate the Christmas tree indicator, the Commerce Department reported last Friday that retail sales rose 1.3% in November, which was double the rate expected by economists surveyed by Bloomberg. Consumers also seemed to be feeling a bit cheerier as the Reuters/University of Michigan preliminary index of consumer sentiment for December rose to 73.4 from 67.4 the month before, according to Bloomberg.

The good news doesn't stop there. Credit Suisse and JPMorgan Chase & Co. both raised their fourth-quarter GDP forecast to a gain of 4.5% from the 3.5% pace projected at the start of the week.

To the stock market, all this positive news was apparently old news because for the week, the S&P 500 was unchanged. Chalk that one up to the "wisdom of crowds."

Data as of 12/11/09	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.0%	22.5%	25.8%	-7.8%	-1.6%	-2.4%
DJ Global ex US (Foreign Stocks)	-1.8	37.8	40.7	-5.8	4.0	1.0
10-year Treasury Note (Yield Only)	3.5	N/A	2.7	4.5	4.2	6.1
Gold (per ounce)	-5.6	29.2	35.8	21.5	20.9	14.9
DJ-UBS Commodity Index	-1.2	13.6	16.5	-7.7	-1.5	4.0
DJ Equity All REIT TR Index	-1.5	23.8	51.5	-13.6	0.1	11.3

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.

DOES THE CHANGE IN THE VALUE OF YOUR ASSETS affect how much you spend? For years, economists have talked about the concept of the "wealth effect." Simply stated, the wealth effect suggests that consumer spending rises or falls based on changes in an individual's assets. For example, if an individual's assets such as their home or investments are rising, they may feel "richer" and be more inclined to spend money. The reverse would also be true according to the theory. But, is it really true?

Economists are split on the impact of the wealth effect on consumer spending. Some economists say the wealth effect from changes in housing prices is minimal, while others say it is significant. Some say the wealth effect from changes in housing prices is greater than the effect from changes in financial assets, while others say the reverse is true. Knowing how the wealth effect may or may not impact the economy is important because consumer spending accounts for about 70% of economic activity, according to *The Wall Street Journal*.

Analyzing household net worth data is one way to help determine the trend in asset levels. So, where does household net worth stand these days?

In the third quarter, household net worth rose to $53.4 trillion. This represents a 5% increase compared to the second quarter, according to the Federal Reserve. On the bright side, this net worth number is up from the recent low of $48.5 trillion in the first quarter of 2009. By contrast, our net worth peaked at $64.5 trillion back in 2006. Not surprisingly, declines in housing prices and the stock market are two main culprits of our loss in wealth.

Depending on how the wealth effect plays out, this decline of $11 trillion in our collective net worth from the 2006 peak could impact future economic growth. The federal government is well aware of these numbers and that's one reason why they continue to look for ways to "stimulate" the economy.

Note: We are working on a very important webinar for our clients titled "2010 Economic Forecast: Threats and Opportunities". Target webinar date to be during the second week of January.

Weekly Focus – Think About It

"Most of the shadows of this life are caused by our standing in our own sunshine."
--Ralph Waldo Emerson

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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