



Scannell Wealth Report
January 19, 2010

The Markets

Former Federal Reserve Chairman Paul Volker was back in the news last week as he warned that the financial system needs broad reform or else we run the risk of another financial crisis.

You may remember Volker as the cigar-chomping Fed Chairman from 1979 to 1987 who raised interest rates dramatically to try and break the back of inflation in the early 1980s. He succeeded, but the price for success was a major recession.

During his speech last week to the Economic Club of New York, Volker argued that the Federal Reserve should be a key player in overseeing the financial system and that they, “should have the power to dismantle big banks that pose a systemic risk to the economy,” according to CNNMoney.com.

Volker worries that as the economy continues to heal, the urgency for reform will fade and that will set the stage for the next crisis. While we will likely get some type of financial reform in coming months, we hope that it will preserve the principles that have made our country so great.

Ironically, on the day Volker spoke, the S&P 500 index hit a fresh 52-week high, according to Briefing.com.

Data as of 1/15/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.8%	1.9%	33.6%	-7.4%	-1.0%	-2.5%
DJ Global ex US (Foreign Stocks)	0.3	3.0	55.9	-5.0	4.4	0.9
10-year Treasury Note (Yield Only)	3.7	N/A	2.2	4.8	4.2	6.8
Gold (per ounce)	0.1	2.2	39.3	21.6	21.7	14.7
DJ-UBS Commodity Index	-3.0	-0.8	24.0	-4.5	-1.1	3.7
DJ Equity All REIT TR Index	-0.1	-0.2	49.5	-13.4	1.5	10.6

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.

BACK IN EARLY MARCH 2009, there was palpable fear in the markets. Our banking system was on the verge of collapse, unemployment was skyrocketing, and the stock market was touching 12-year lows. But on March 10, the collective psychology changed, the market turned around, and since then we've witnessed one of the greatest short-term bull markets in history.

What do we do for an encore in 2010?

Before we figure out 2010, we need to understand what drove the 2009 bull market. While it may be a little early to write the history of 2009, we can make some observations that provide a framework and context for the great reflation.

With the benefit of hindsight, here are some reasonable conclusions on what drove the 2009 bull market:

1. The Federal Reserve flooded the economy with easy money. This money had to go somewhere and some of it found its way to the financial markets.
2. With short-term savings rates near zero, investors had to move out on the risk spectrum (e.g., stocks, commodities, high-yield bonds) in order to have a chance at higher returns.
3. China implemented a massive stimulus program that kept their economic engine running and that helped goose other countries' economies.
4. There was a one-time re-pricing of risk as investors realized the world was not coming to an end, so they snapped up stocks that were perceived as "generational" bargains.

One of the tenets of investing is that there is "no free lunch." In this case, it means the government cannot endlessly flood the economy with stimulus. If they try, there may be repercussions such as unacceptable inflation, a crashing currency, and soaring deficits.

Here's the key question as 2010 unfolds: Can the economy get on a self-sustaining growth path without further government stimulus?

If we are over the hump and the economy is self-sustaining, that may bode well for the markets in 2010. Conversely, if the economy still needs substantial government help, investors may get nervous again. The tug-of-war between investors who believe the former versus the latter may be the defining dynamic in the 2010 market. Regardless of which comes to fruition, we'll continue to do our best to help you meet your long-term goals.

Weekly Focus – Think About It

Our thoughts and prayers are with the people of Haiti and the relief workers who are trying to help them.

Best regards,
Scannell Wealth Management Group

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 email with their email address and we'll 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 Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.

* The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.

* The Dow Jones World (Ex. U.S.) is an unmanaged group of securities considered to be representative of the non-U.S. stock market in general*

The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. * The Dow Jones World (Ex. U.S.) is an unmanaged group of securities considered to be representative of the non-U.S. stock market in general. * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.*To unsubscribe from the Weekly Market Commentary, please reply to this e-mail with "unsubscribe" in the subject line.

Compliments of Scannell Wealth Management Group

Securities offered through **HighTower Securities, LLC** Member FINRA & SIPC

225 Aberdeen Dr., Valparaiso, IN 46385 (219) 531-4941

This newsletter was prepared by PEAK