



Scannell Wealth Report
January 25, 2010

The Markets

Sometimes earnings move the markets. Sometimes politics does the trick. Last week, both were in play and the result was not pretty.

On the earnings front, some high-profile companies such as Google, American Express, and Advanced Micro Devices reported earnings that failed to excite investors and this negatively impacted the market. General Electric and McDonalds, on the other hand, issued rather upbeat earnings reports and investors responded favorably. Mentioning these companies is for illustrative purposes only and not intended as buy or sell recommendations.

Politically speaking, it was a week to remember. Investors became agitated when the administration announced plans to limit the size and scope of trading activities by big banks. Historically, this has generally been a profitable activity for banks and has added liquidity to the markets, according to CNBC. Proponents of the administration's policy say it may help prevent future financial crises while critics say it is an unnecessary government intrusion in free markets. Adding more uncertainty, two U.S. Senators said they would not support Ben Bernanke for a second term as chairman of the Federal Reserve and there were rumblings that Treasury Secretary Tim Geithner may be on his way out. According to some market observers, the stock market would not react well if either Bernanke or Geithner suddenly became jobless.

These news items helped send the S&P 500 index to a weekly loss of 3.9%. While we may be out of the heat of the financial crisis that engulfed us in the fall of 2008, last week's action shows that risks remain and we always have to remain vigilant.

Data as of 1/22/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-3.9%	-2.1%	31.2%	-8.5%	-1.3%	-2.5%
DJ Global ex US (Foreign Stocks)	-3.9	-1.1	54.3	-6.4	3.7	0.8
10-year Treasury Note (Yield Only)	3.6	N/A	2.6	4.8	4.1	6.7
Gold (per ounce)	-3.9	-1.8	26.0	19.3	20.5	14.2
DJ-UBS Commodity Index	-2.3	-3.1	22.3	-5.8	-1.8	3.3
DJ Equity All REIT TR Index	-4.4	-4.5	47.6	-14.7	0.8	10.2

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.

WHAT ARE SOME OF THE MAJOR MARKET RISKS that investors should be monitoring right now? After the dramatic bull run over the past 10 months, it would not be surprising to see a correction in the markets. This correction could be caused by a wide variety of reasons, but here are three broad categories that bear watching, according to a January 23, 2010 *New York Times* article.

First, corporate earnings could disappoint investors. Thomson Financial expects earnings from the S&P 500 companies to rise 28% in 2010. If earnings come in shy of expectations, or if corporations offer tepid outlooks when they announce their Q4 2009 earnings, investors could get nervous and lighten up on equities.

Second, market valuation is not necessarily cheap anymore. Last March, the price-to-earnings ratio for the S&P 500 index companies was 13.3, according to the 10-year averaged earnings method as calculated by Yale economist Robert J. Shiller. Now, the ratio is about 20.0, which is above the long-term average of around 16.0. Accordingly, we may not be able to count on an “expansion” of the P/E ratio for further stock market gains.

Third, as we saw last week, government policy can impact the financial markets. This is a wildcard because it is difficult to predict what will come out of Washington – or other countries – that could influence the markets. Because of the financial crisis, government is heavily involved in the financial markets and the economy so this policy risk is probably bigger than normal.

Of course, some other event could occur out of the blue and affect the markets either positively or negatively, too. Nonetheless, it is helpful to identify some of the more likely risks and keep them top of mind so we can be responsive as appropriate.

Weekly Focus – Think About It

“We have always known that heedless self-interest was bad morals; we know now that it is bad economics.”

-- Franklin D. Roosevelt (Second inaugural address, January 20, 1937)

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*

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