



**Scannell Wealth Report**  
**February 8, 2010**

**The Markets**

Volatility in the financial markets has risen noticeably in the past few weeks as investors remain on edge about a multitude of issues.

A mixed employment report for January, continued budget deficit issues in Portugal, Italy, Ireland, Greece and Spain, monetary tightening in China, and a growing sense that the worldwide economy might be running on government stimulus fumes instead of stable gas all contributed to worldwide jitters, according to the Associated Press. In the U.S., the S&P 500 index dropped for the fourth week in a row and it is now down 7.3% from its January 15 recovery high, according to data from Yahoo! Finance. Foreign stocks, commodities, and gold are also down for the year as shown in the chart below.

The increase in investor anxiety helped send the value of the U.S. dollar up, up, and away. Last week, the dollar reached an eight-month high against the euro and a seven-month high against a trade-weighted basket of six major currencies, according to MarketWatch. The good news about a stronger dollar is that it suggests investors still have faith in the U.S. as a “safe haven” in times of uncertainty.

The global economy is still recovering from the Great Recession and the path to future prosperity will likely be bumpy. With proper seat belts, though, we will do our best to make the trip as smooth as possible.

<b>Data as of 2/5/10</b>	<b>1-Week</b>	<b>Y-T-D</b>	<b>1-Year</b>	<b>3-Year</b>	<b>5-Year</b>	<b>10-Year</b>
Standard & Poor's 500 (Domestic Stocks)	-0.7%	-4.4%	22.8%	-9.7%	-2.4%	-2.9%
DJ Global ex US (Foreign Stocks)	-3.4	-7.6	40.0	-8.9	1.9	0.0
10-year Treasury Note (Yield Only)	3.6	N/A	2.9	4.8	4.1	6.6
Gold (per ounce)	-1.9	-4.2	15.0	17.7	20.6	13.0
DJ-UBS Commodity Index	-1.9	-9.1	13.3	-8.5	-2.3	2.6
DJ Equity All REIT TR Index	-0.3	-5.5	51.4	-16.4	0.6	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.

**CORPORATE AMERICA IS MAKING AN EARNINGS RECOVERY**, but the revenue recovery is slow to develop. For 2009, *The Wall Street Journal* projects that the S&P 500 companies will show a sales drop of \$1.1 trillion, or 13% from the prior year. In the fourth quarter of 2009, revenue is expected to total just over \$2 trillion, which would be the same number as the first quarter of 2006. In other words, this Great Recession has set corporate America's revenue back nearly four years.

Interestingly, while revenue is back down to levels from nearly four years ago, total U.S. employment in January 2010 was back down to where it was in April 2000 – that's nearly a 10-year setback in

employment – according to data from the Department of Labor. This indicates that on a comparative basis, corporations have cut employment more dramatically than the decline in revenue. With employment levels back to where they were in early 2000, you can see why corporations are showing solid earnings growth (up 47% so far in Q4 2009 from the year earlier quarter excluding financial companies, according to *The Wall Street Journal*) even though revenue growth is weak (projected to rise just 0.9% in Q4 2009 from the year earlier quarter, according to *The Wall Street Journal*). Corporate America is showing profit gains partly due to the leverage from keeping employment costs low.

The good news is that Corporate America cannot keep employee headcount low indefinitely if revenue starts to rise significantly. Eventually, companies have to hire to support revenue expansion. When this new revenue expansion/hiring cycle starts is anybody's guess. But, when it does, that could be a positive sign for the financial markets.

### **Weekly Focus – Think About It**

“Investors repeatedly jump ship on a good strategy just because it hasn't worked so well lately, and, almost invariably, abandon it at precisely the wrong time.”

– David Dreman

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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