



Scannell Wealth Report
March 1, 2010

The Markets

Three months ago, on December 1, 2009, the S&P 500 closed at 1,108. Last week it closed at 1,104. After three months, the net movement in the stock market was just 4 points. Hmm. What does that tell us about investing? Here are a few thoughts that come to mind.

First, there is a lot of noise out there. What may seem like big news on the day it comes out (e.g., new U.S. home sales plunged in January 2010 to the lowest level on record dating back to 1963, according to the Department of Commerce), may actually just be one piece of information that briefly affects the markets and then is quickly forgotten.

Second, investing is a game of patience. As the past three-month stretch shows, the stock market can stay flat for a long period. Okay, three months is not exactly "a long period," but there are historical precedents for the stock market staying flat for many years. For example, the closing price of the S&P 500 was only 1 point different on November 29, 1968 and August 17, 1982, according to MSN. That required nearly 14 years of patience!

Third, your patience may be rewarded. Between August 17, 1982 and March 24, 2000, the S&P 500 rose approximately 1,300%, according to data from Yahoo! Finance. That was nearly an 18-year payoff.

As you may already know, our current three-month flat period in the stock market is just the tip of the iceberg. Turning back the calendar, the S&P 500 closed at 1,105 on March 24, 1998, which is only 1 point higher than it closed at last Friday. This means the U.S. stock market has essentially gone nowhere in nearly 12 years. Ouch.

That may sound ugly but there is an upside. Many stocks pay dividends so, on a reinvested dividends basis, the return may look better over those 12 years. And, of course, there's this thing called *diversification*. Other asset classes such as foreign stocks, bonds, real estate, and others may have provided a positive boost to an investor's portfolio over that period. In summary, tune out the noise, be patient, and diversify.

Data as of 2/26/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.4%	-1.0%	50.3%	-8.7%	-1.7%	-2.0%
DJ Global ex US (Foreign Stocks)	0.3	-4.6	59.2	-8.9	1.8	0.3
10-year Treasury Note (Yield Only)	3.6	N/A	3.0	4.6	4.4	6.4
Gold (per ounce)	-0.4	0.4	18.3	17.4	20.5	14.2
DJ-UBS Commodity Index	-0.7	-3.9	25.4	-8.3	-3.1	3.2
DJ Equity All REIT TR Index	0.8	-0.2	92.5	-14.6	1.7	11.2

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.

IS DEFLATION on the horizon? With all the money being pumped into the worldwide economy and our large state and federal deficits, many investors are preparing for a surge of *inflation* sometime down the road. Logically, that makes sense--but is that what will really happen?

Yes, the U.S. government has tried to pump, prime, and print its way to economic growth, but that has its limits. This money has to find a productive use or else it won't "stimulate." Here are a few things that are blocking our stimulus money from stimulating the economy.

First, banks have excess cash. Bank lending plays an important role in transforming easy money into economic growth. Unfortunately, banks are sitting on nearly \$1 trillion of excess reserves at the Federal Reserve, up from essentially zero in the fall of 2008, according to data from the St. Louis Federal Reserve Bank. This is \$1 trillion above and beyond reserve requirements, which means banks could use that money to lend to businesses and consumers instead of keeping it safe and secure with the Fed.

Second, the unemployment rate is near 10% and jobless claims are remaining stubbornly high. It's hard for consumers to spend when they are out of a job or worried about losing one.

Third, consumers are de-leveraging and paying down debt. By paying off their bills, consumers have less money to spend on goods and services. Less spending may lead to less economic growth.

Fourth, because of the deep recession, the U.S. has substantial excess capacity in its industrial sector. According to the Federal Reserve, capacity utilization was only 72.6% in January, which is well below the 1972-2009 average of 80.6%. With all this slack, there may be little upward pressure on prices because factories have room to add production.

Fifth, a little followed economic indicator from the Dallas Federal Reserve Bank called the Trimmed Mean Inflation Index (TMII) is *declining*. This is an alternative measure of inflation, which adjusts for the month-to-month noise found in more popular inflation measures like CPI. For the 12 months ending December 2009, the TMII (inflation rate) was 1.3%--the lowest rate on record dating back to 1978.

So, while many people are talking about inflation, we also have to consider the possibility that *deflation* could happen first and then be followed by inflation down the road. It may not be a high probability, but it is on our radar and could impact the markets if it comes to fruition.

Weekly Focus – Think About It

"Success is simple. First, you decide what you want specifically; and second, you decide you're willing to pay the price to make it happen, and then pay that price."

--Nelson Bunker Hunt

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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