



## The Markets

Has corporate America lost its gumption? Three of the things that have made the United States so great are the determination, fearlessness, and entrepreneurial spirit of our people. Unfortunately, that seems to be a bit lacking right now with the leaders of some of our country's largest companies.

For more than two years now, corporate America has been on a belt-tightening, cost-cutting push that has helped contribute to our high unemployment rate. While that has been bad for employees, it has sparked a significant revival in corporate profits. For example, according to a *New York Times* article based on data from the Bureau of Economic Analysis, second quarter corporate profits were within 4% of their pre-recession peak. And, by another measure, *Barron's* magazine pointed out that corporate profits as a percentage of gross domestic product are near 40-year highs.

So, if corporate America is doing so well, why aren't they hiring and why is the stock market stuck in neutral? In a word -- uncertainty.

Even top Federal Reserve officials are having a hard time agreeing on what to do next to help the economy. On August 10, 17 of them met and, according to an August 24 *Wall Street Journal* article, at least seven of them spoke against or expressed reservations about the ultimate decision Chairman Bernanke made to keep the Fed's balance sheet from shrinking. Toss in government regulation, an upcoming mid-term election, tax policy uncertainty, a deflation/inflation debate, and stubbornly high unemployment, and there's plenty to muddy up the waters.

Corporate America is reacting to this uncertainty by conserving cash and keeping a lid on hiring. However, this will eventually change, and, on a positive note, we may be starting to see that happen as corporate acquisitions are on the rise. The current bidding war between two blue-chip technology companies for an obscure data-storage company may be one example of gumption returning to the boardroom... and that's good!

Data as of 8/27/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.7%	-4.5%	3.5%	-	-2.6%	-3.5%
DJ Global ex US (Foreign Stocks)	-0.5	-6.0	2.6	-10.0	1.4	0.7
10-year Treasury Note (Yield Only)	2.7	N/A	3.5	4.6	4.2	5.8
Gold (per ounce)	0.9	11.9	31.0	22.9	23.5	16.3
DJ-UBS Commodity Index	0.1	-5.5	3.8	-7.1	-4.8	2.1
DJ Equity All REIT TR Index	1.8	14.0	31.5	-5.1	1.8	10.5

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.

**WHO HAS A WORSE DEBT BURDEN**, countries in developed markets or countries in emerging markets? Well, by at least one measure, developed countries are in worse shape.

According to the August 2010 newsletter from Research Affiliates, LLC, “Developed markets account for 62% of the world’s GDP and owe 90% of the world’s sovereign bond debt. The emerging markets collectively produce 38% of the world’s GDP and owe just 10% of world sovereign bond debt.” In other words, relative to the size of its economies, developed market countries (like the U.S.) have a much higher debt burden.

This debt level is problematic because it hampers a country’s ability to grow.

On the flip side, emerging market countries that are not swimming in debt are some of the fastest growing in the world. China is a good example. Its breakneck growth has led to a 60-mile long traffic jam on a main highway leading into Beijing that is still unfolding, according to *The New York Times*. The culprit? A parade of coal trucks trying to supply the rapidly growing energy needs of Beijing.

Over time, as the developed world tries to pare its debt through austerity programs, sluggish growth may result. World leaders are banking on emerging countries like China to help pickup the economic slack. The extent to which these emerging countries can do that may have a big impact on how long the U.S. stays stuck in neutral.

### **Weekly Focus – Think About It**

“Don't waste life in doubts and fears; spend yourself on the work before you, well assured that the right performance of this hour's duties will be the best preparation for the hours and ages that will follow it.”  
--Ralph Waldo Emerson

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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\* 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.

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