



**Scannell Wealth Report  
July 20, 2009**

**The Markets**

The second quarter earnings season started just like the Fourth of July – with a bang!

The hard-hit financial sector delivered some good news last week as companies such as Goldman Sachs and JP Morgan Chase announced earnings that pleased the market. In the tech sector, Intel and IBM provided support, too. On the other hand, widely watched General Electric came out with earnings and guidance last Friday that was disappointing and the stock dropped 6% by the end of the day. The good news was that the big drop in GE stock did not take the rest of the market with it – perhaps a sign that investors don't view GE as the bellwether stock it once was.

By the end of the week, after all the news and noise, the S&P 500 index had surged 7% and had almost recaptured its recent June 12 high.

Going forward, investors will keep a close eye on the rest of the earnings reports looking for any sign that profits are being generated by revenue growth instead of relying on cost cutting. As you know, you can't cost cut your way to 15% profit growth each year, so, eventually, we'll need to see solid revenue growth before investors will feel confident that we're out of the woods.

<b>Data as of 7/17/09</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)	7.0%	4.1%	-25.4%	-8.7%	-3.1%	-4.0%
DJ Global ex US (Foreign Stocks)	6.0	15.4	-28.2	-6.0	2.5	0.4
10-year Treasury Note (Yield Only)	3.7	N/A	4.0	5.1	4.4	5.7
Gold (per ounce)	2.7	7.8	-2.9	12.8	18.2	14.0
DJ-UBS Commodity Index	5.5	2.6	-44.3	-11.8	-3.9	3.9
DJ Equity All REIT TR Index	7.2	-13.3	-44.5	-18.1	-3.5	N/A

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 available.

**AMERICANS SOCKED AWAY MONEY AT THE HIGHEST MONTHLY RATE IN 15 YEARS**

last month, according to the Department of Commerce, and that's good news – mostly. The personal savings rate rose to 6.9% in June, which is well above the average savings rate over the past decade. The personal savings rate is the percentage of personal disposable income that is saved each month.

A higher savings rate may reduce our dependence on foreign countries financing our deficits – a good thing – but, paradoxically, it might lengthen our recession. If we collectively save “too much” it could stunt economic growth as consumption slows down and fewer goods and services are produced and delivered. This “paradox of thrift” may hurt the economy in the short-term, but could be very beneficial in the long

run. A higher savings rate also helps cushion families against unforeseen financial setbacks like the loss of a job, so that's good, too.

To put the 6.9% in context, here's how the number looks over roughly the past 50 years:

	<b>1960s Average</b>	<b>1970s Average</b>	<b>1980s Average</b>	<b>1990s Average</b>	<b>Jan 2000 – Sep 2008 Average</b>	<b>Oct 2008 – Jun 2009 Average</b>
Personal Savings Rate	8.3%	9.6%	9.0%	5.2%	1.5%	4.4%

Source: U.S. Department of Commerce: Bureau of Economic Analysis

Notice that from the 1960s through the 1980s, the personal savings rate averaged a healthy 8.3% to 9.6%. During the 1990s, there was a noticeable decline in the savings rate as consumers started a nearly 20-year spending binge. As we started the new millennium and all the way up to September of last year, consumers were on a spending rampage as they not only burned through their income each month, but, in some cases, borrowed money to support their habits.

In August 2005, near the peak of the housing bubble, the personal savings rate was actually a negative 2.7%. This amazing financial alchemy was aided and abetted by consumers pulling out billions of dollars in home equity loans and using that money to finance an unsustainable lifestyle. Of course, this spending above our means also meant that the level of economic growth was unsustainable, too. This all abruptly shifted in August 2008 as the personal savings rate went from 0.8% that month to last month's 6.9%.

Yes, it is generally a good thing that consumers are saving again. The big question is, have we learned our lesson? Is this new frugality just temporary or is it the new normal? The answer to that question has major implications for the worldwide economy over the coming years.

### **Weekly Focus – Think About It**

“Money often costs too much.”

-- Ralph Waldo Emerson

Best regards,

**Timothy Scannell, CPA, CFP®**  
**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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