



## The Markets

Whether you are bullish or bearish, there's plenty of ammo in each camp to support your view.

Here are three keys supporting the bullish case:

1. The unfolding earnings season is generally positive. As of last week, a whopping 77% of the 184 S&P 500 companies that have reported earnings so far this quarter have exceeded expectations, according to Thomson Reuters data.
2. One of Warren Buffett's favorite economic indicators is now showing signs of life. Buffett tracks the average weekly U.S. rail carloads and that rose in June compared to May for the first monthly increase this year, according to the Association of America Railroads.
3. The domestic economy is poised for growth this quarter. Believe it or not, GDP may actually grow this quarter (albeit at a low rate) with an assist from a very accommodative Federal Reserve, according to *Barron's*.

For the bears, there's plenty of food to chew on, too:

1. The economy, while showing signs of improvement, is still a mess with unemployment at 9.5% and likely to rise further.
2. The housing industry is in a depression-like state.
3. Government spending is way up while revenue is way down, which is resulting in massive budget deficits at both the state and federal levels.
4. Consumers are in hunker-down mode, which may limit spending and keep economic growth at a low level for a long time.

Despite the gloom, the S&P 500 index has risen about 45% in the last 4½ months. It is now up more than 8% for the year and at its highest level since last November, according to CNBC.

As of last week, the bulls were stampeding over the bears. An old Wall Street saw says, "Don't fight the tape." Well, the old ticker tape is long gone, but its replacement – electronic quotes – has been flashing plenty of green lately. Of course, that could change in an instant. A batch of poor earnings reports or some surprisingly negative economic indicator might trip the market. It could also be something a little more unassuming such as investors deciding en masse that it's time to book some profits and head to the beach for one last refreshing summer dip.

<b>Data as of 7/24/09</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)	4.1%	8.4%	-	-8.1%	-2.0%	-3.1%
DJ Global ex US (Foreign Stocks)	4.9	21.1	-25.7	-5.2	4.2	1.2
10-year Treasury Note (Yield Only)	3.7	N/A	4.0	5.0	4.5	5.9
Gold (per ounce)	1.5	9.4	2.5	16.3	19.5	14.1
DJ-UBS Commodity Index	2.5	5.2	-39.7	-10.6	-3.1	3.9
DJ Equity All REIT TR Index	8.3	-6.0	-39.2	-16.5	-1.0	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.

**WHEN DO YOU MAKE THE MOST MONEY** in the financial markets? According to a *Barron's* magazine quote from Arjun Divecha, a portfolio manager at GMO (a Berkeley, California-based emerging-markets equities group), "You make more money when things go from truly awful to merely bad than when they go from good to great." That insight may help explain why the U.S. stock market has rallied so sharply over the past few months.

Do you remember how bad the news was between October 2008 and early March of this year? Just when things seemed nearly hopeless in early March, the market all of a sudden turned around and, as described above, shot up nearly 45%. Once the turn started, we heard the phrase "green shoots" and little by little, "less bad" economic and corporate news began to trickle out.

Like Divecha's quote, once we made the shift from "the world may be coming to an end" to "we're going to survive this after all," the stock market rallied. Ideally, we'd all love to be omniscient and magically pick that point when the market makes the shift, but we can't. However, that misses the real point we want to make.

The point is not to confuse what's going on in the economy with what's going on in the stock market. As we are witnessing right now, the economy and the stock market can decouple. This decoupling, though, is likely only a temporary phenomenon. If the economy does not follow through and improve like the stock market is foreshadowing, then the market could be in for a nasty fall down the road.

To succeed as an investor, it's important to understand that the economy and the financial markets can decouple in the short-term. However, in the long run, the two should more closely resemble each other's trajectory since corporate profits (and hence, stock prices) are so closely intertwined with the economy.

### **Weekly Focus – Think About It**

"Most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can't buy what is popular and do well."  
-- Warren Buffett

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\* 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. \* 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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