

The Markets

The 2000s are turning into a lost decade for investors and for jobs. The stock market, as measured by the S&P 500 index, is lower today than it was at the start of the decade excluding reinvested dividends, according to data from Yahoo! Finance. Likewise, the private sector of the economy has lost a net 233,000 jobs between August 1999 and August 2009, according to MarketWatch. While the net result has been down, it's been a dizzying roller coaster ride over the past 10 years.

In the late 1990s, we witnessed an incredible stock market rally that pushed stock prices to an all-time high. Then poof, the bubble burst and stock prices dropped dramatically. Concerned about the potential fallout from the market decline, the Federal Reserve quickly implemented a low interest rate policy, which helped spark a multi-year housing bubble. Stocks eventually recovered and the S&P 500 index set a new all-time high in October 2007. Since then, we've had a dual drop in stock prices and the housing market, which took the economy – and jobs – down with them. Like it or not, capitalism seems to engender boom and bust cycles. We're currently in a decade-long bust cycle; however, it was preceded by two booming decades as the S&P 500 index had an annualized total return of 18.2% in the 1990s and 17.5% in the 1980s, according to Vanguard.

The good news is, while we don't know the timing of it, booms generally follow busts.

Data as of 9/4/09	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-1.2%	12.5%	18.2%	-8.2%	-1.9%	-2.8%
DJ Global ex US (Foreign Stocks)	-1.6	27.7	-12.1	-6.0	4.8	1.2
10-year Treasury Note (Yield Only)	3.4	N/A	3.6	4.8	4.3	5.9
Gold (per ounce)	3.5	13.7	22.7	16.4	19.8	14.5
DJ-UBS Commodity Index	-3.8	4.9	-32.4	-10.4	-2.8	3.2
DJ Equity All REIT TR Index	-5.7	5.6	-35.0	-14.5	-1.0	8.2

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.

WITH THE RISE IN OUR BUDGET DEFICIT and the quantitative easing taking place, there is some concern that the value of the U.S. dollar could drop significantly (i.e., become cheap). Why should we care? An extremely weak dollar could lead to the following:

- Higher prices on imported goods because of a low exchange rate
- Higher prices on imported goods could lead to unacceptable levels of inflation
- Our exports may become cheap, but foreign countries may retaliate for a weak dollar by imposing trade barriers

Despite the potential pitfalls, a weak (but not too weak) dollar does have at least one major benefit – it tends to rev up exports because our products become cheap when converted into foreign currencies. Because of this benefit, the government may not mind if the dollar is weak as long they can keep the disadvantages of a weak dollar under control.

China is a good example of how a weak currency can be beneficial. In mid-July of this year, you could buy a McDonald's Big Mac for \$3.57 based on the average price in four major U.S. cities, according to the *Economist* magazine. By contrast, in China, you could buy a Big Mac for the equivalent of just \$1.83. Based on this very simple analysis, some would argue that China's currency, the yuan, is (unfairly) cheap. Perhaps not surprisingly, China's GDP grew 7.9% in the second quarter while much of the rest of the world struggled, according to Shanghai Daily. With a cheap yuan, China becomes a desirable place for foreign countries to outsource their manufacturing because they can get more bang for their buck (currency). And, guess which country is one of the biggest outsourcers to China? Yes, that would be us.

The U.S. seems to tolerate a cheap yuan because China has been an eager buyer of our Treasury securities, which helps fund our budget deficit, according to the Treasury department. On the downside, it's been brutal to our manufacturing sector. As we rack up trillions of dollars in deficit spending over the next few years, we need a willing buyer like China to keep snapping up our greenbacks. If our dollar collapses, China will lose because they hold hundreds of billions of our dollars. If they lose money on their dollar holdings, they may stop financing our deficits, which could lead to much higher U.S. interest rates. So, we have a strong interest in preventing the dollar from collapsing.

Here's the main point of this rather lengthy piece on the value of the dollar – the U.S. has to maintain some level of fiscal and monetary discipline or else we run the risk of a run on the dollar and a resulting economic debacle. To help us identify if we are heading toward a dollar disaster, we are monitoring the value of the dollar, gold prices, commodity prices, and interest rates.

Whew. Let's end with something lighthearted. Ten years ago, a Big Mac cost \$2.43, according to the *Economist*. Today, it costs \$3.57. That's a 47% increase. Do you think the taste of a Big Mac improved by that much over the past decade? If so, then maybe this wasn't a lost decade after all.

Weekly Focus – Think About It

“It doesn't work to leap a twenty-foot chasm in two ten-foot jumps.”
--American Proverb

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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