

# Weekly Commentary

## January 24, 2011

### The Markets

It may not feel like it, but 2009 and 2010 completed the best two-year advance in the S&P 500 index since 1998 and 1999, according to Bloomberg. The bad news is the booming late 1990s was followed by the bust of the 2000s and as of last week, the S&P 500 was down about 13% from its December 31, 1999 closing price. That excludes reinvested dividends and is based on data from Yahoo! Finance. This 13% decline over the past 11 years was driven by two nasty bear markets -- the second from which we are still recovering.

Stepping back to the end of 1998, here's a high level view of the major market moves in the S&P 500 over the past 12 years, according to Ritholtz.com and Bloomberg:

- A 68% rally from the end of 1998 to the 2000 top
- A 50% sell off to the March 2003 low
- A 104% rally to the October 2007 top
- A 58% drop to the March 2009 low
- An 86% pop to the December 2010 high

Clearly, the financial markets are not for the faint of heart!

This brief 12-year history of the stock market shows that the market can “giveth” and it can “taketh” with equal ease. Our role is to try and help you meet your goals regardless of whether the market is in a “giving” or “taking” mood.

Data as of 1/21/11	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.8%	2.0%	17.6%	-0.7%	0.3%	-0.5%
DJ Global ex US (Foreign Stocks)	-0.7	0.6	11.4	-1.8	2.1	3.7
10-year Treasury Note (Yield Only)	3.4	N/A	3.6	3.5	4.4	5.2
Gold (per ounce)	-1.7	-4.7	21.2	15.5	19.4	17.6
DJ-UBS Commodity Index	0.1	-0.3	19.4	-4.4	-1.0	5.2
DJ Equity All REIT TR Index	-0.3	0.6	31.5	3.9	2.3	10.9

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.

**EVERYBODY LOVES LISTS** so why not a list of the 10 greatest trades of all time?

Rather than focus on people who bought a stock and watched it zoom up 100 fold, the compiler of this list -- International Business Times -- focused on a “style of trading that's best described as making huge, concentrated bets by analyzing fundamental economic/business conditions. Most (but not all) of these trades can be labeled as ‘global macro.’”

Whether they were lucky or brilliant (or a combination of both), these folks made a bundle of money from their best trades. Here they are:

1. John Paulson's bet against subprime mortgages (his fund made \$15 billion just in 2007 from this trade).
2. Jesse Livermore's call on the Crash of 1929 (a legendary trader and the subject of the highly popular book, *Reminiscences of a Stock Operator*).
3. John Templeton's foray into Japan in the 1960s (a true investment industry pioneer, Templeton foresaw the rise of Japan after World War II and profited enormously from it).
4. George Soros' breaking of the Bank of England in 1992 (the Bank of England blinked and Soros made \$1 billion).
5. Paul Tudor Jones' shorting of Black Monday in October 1987 (he correctly predicted the crash, bet a bundle, and tripled his money as the market crashed 22% in one day).
6. Andrew Hall's \$100 oil prediction (with oil trading at \$30 per barrel in 2003, Hall made a big bet that prices would rise to \$100 within five years; they did and he took home a personal paycheck of \$100 million in 2008).
7. David Tepper's 2009 bet on financials (as the market hit its low in early 2009, Tepper boldly bought financial services stocks and his fund earned \$7 billion that year -- and a cool \$4 billion of that went to Tepper).
8. Jim Chanos' prescient shorts (his sharp analysis led him to predict the demise of Enron, WorldCom, and other firms, and he is known as the best short-seller in the world).
9. Jim Rogers' early call on commodities (he was bullish on commodities back in the 1990s and has been riding them to great profits ever since).
10. Louis Bacon's geopolitical play (he correctly predicted that Saddam Hussein would invade Kuwait in 1990 and profited handsomely by going long on oil and shorting stocks, which helped his fund return 86% that year).

While these are the types of trades that make the headlines, you never hear about the other investors who made a big call and missed, and ended up out of business. Rather than trying to throw a touchdown pass on every play and make a "big score" like these traders, we focus on trying to get consistent first downs. Do that and the score may take care of itself.

## **Weekly Focus – Think About It**

"You can't have a perfect day without doing something for someone who'll never be able to repay you." --*John Wooden*

\* 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 DJ Global ex US is an unmanaged group of non-U.S. securities designed to reflect the performance of the global equity securities that have readily available prices.

- \* Gold represents the London afternoon gold price fix as reported by the London Bullion Market Association.
- \* The DJ Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- \* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- \* The DJ Equity All REIT TR Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- \* 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.
- \* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
- \* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
- \* Consult your financial professional before making any investment decision.
- \* You cannot invest directly in an index.
- \* Past performance does not guarantee future results.

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