

Weekly Commentary

January 31, 2011

The Markets

What recession?

That's not meant as an insensitive remark to the millions of Americans who are still struggling and unemployed, rather, it's meant to highlight the uneven nature of this recovery. Officially, the recession ended in June 2009, according to the National Bureau of Economic Research. And, to make it even more "official," real gross domestic product ended last quarter at an all-time high, according to data from the Department of Commerce as reported by MarketWatch. In other words, economic output in the United States is higher than it's ever been.

Does it feel that way?

One problem with this recovery is that the less educated people have been hit the hardest and they're struggling mightily to get back to even, while the highly educated are, by and large, doing well. Let's start by looking at this dichotomy in the unemployment rate as segmented by educational attainment.

Educational Attainment	Unemployment Rate as of December 2010
Less than high school diploma	15.3%
High school graduates, no college	9.8%
Some college or associate degree	8.1%
Bachelor's degree and higher	4.8%

Source: Department of Labor

The chart shows how the recovery from this recession has benefited the "Bachelor's degree and higher" folks while the less educated are still stuck in recession mode.

It's eye-opening how this split shows up in the economy. Here are several examples of how high-end consumers (and probably higher-educated people, too) are faring, according to various *Wall Street Journal* reports:

- Christie's International PLC said last week that its sales of fine and decorative art hit an all-time record high last year. This includes the sale of a Picasso painting for \$106.5 million -- the highest price ever paid for a work of art at auction.
- The high-end retailer Coach reported a 19% increase in sales last quarter and chief executive Lew Frankfort, commenting on American customers said, "She's spending more than she did before the recession," by 5% to 10%.
- Hedge-fund manager John Paulson personally netted more than \$5 billion in 2010 and that's on top of the \$4 billion he made in 2007 betting against subprime mortgages.

As Jacob Funk Kirkegaard, a research fellow at the Peter G. Peterson Institute for International Economics recently said, “It is the best educated and those with the highest skills that derive the most benefits from a globalizing economy.” That seems to be true based on the above information.

So, if you’re wondering how the stock market can keep moving up even though the unemployment rate is distressingly high at 9.4%, the above is one answer. In short, consumer spending accounts for 70% of demand in the economy, according to *The Wall Street Journal*, and those folks with the highest education and the most wealth are opening their wallets and driving economic growth.

Data as of 1/28/11	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.6%	1.5%	18.9%	-1.9%	-0.1%	-0.7%
DJ Global ex US (Foreign Stocks)	0.1	0.7	15.9	-3.0	1.6	3.8
10-year Treasury Note (Yield Only)	3.3	N/A	3.7	3.6	4.5	5.3
Gold (per ounce)	-1.8	-6.5	21.2	12.7	18.5	17.5
DJ-UBS Commodity Index	-0.4	-0.7	24.0	-5.2	-1.5	3.7
DJ Equity All REIT TR Index	1.5	2.2	37.0	1.5	2.2	11.0

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.

MOST AMERICANS UNDERSTAND THE NEED TO REDUCE THE BUDGET

DEFICIT, but a new poll shows few Americans are willing to pay the price. Unfortunately, our projected budget deficit is getting worse, not better. Last week, the nonpartisan Congressional Budget Office said the federal budget deficit will hit a record high of nearly \$1.5 trillion in 2011.

What are most Americans willing to do to cut this deficit? According to a January 14–16, USA Today/Gallup poll, not much.

Topping the list, 59% of Americans were in favor of cutting foreign aid. Unfortunately, foreign aid is too small of an item to make a dent. The biggest chunks of government spending -- other than interest on the debt -- are entitlement programs and national defense. Here, the percentage of Americans in favor of taking a haircut falls significantly:

- Those in favor of cutting military and defense spending...42%
- Those in favor of cutting Medicare...38%
- Those in favor of cutting Social Security...34%
- Those in favor of cutting education spending...32%

Americans recognize the deficit problem, but there’s still no consensus on how to solve it.

Weekly Focus – Think About It

“When you have to make a choice and don't make it, that is in itself a choice.” --*William James*

- * 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.
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