

# Weekly Commentary

## February 6, 2012

### The Markets

How do you spell market rally? How about “Jobs.”

A much higher than expected 243,000 jobs were added to our economy in January and that helped push the Dow Jones Industrial Average to its highest close since May 2008, according to Bloomberg. On top of that, the unemployment rate dropped to 8.3 percent – the lowest since February 2009.

More good economic news came from the services sector as the pace of growth in January accelerated to its highest level in nearly a year, according to the widely followed index from The Institute of Supply Management and reported by CNBC.

While the overall economy has gained some momentum lately, the housing market is still stuck in the gutter. According to data released last week, the S&P/Case-Shiller index of home prices in 20 major cities declined 3.7 percent in the 12 months ending November 2011. Since its 2006 peak, average homes prices in the index have dropped 33 percent and prices are now back to where they were in mid-2003.

On the bright side, if you’re looking to buy a house or refinance, now is a great time. The average rate on a 30-year fixed-rate mortgage fell to 3.87 percent last week. That’s an all-time record low, according to MarketWatch.

Overall, after a scare back in the fall of 2011, the economy seems to be gaining steam and stock prices have reflected that. The big question remains... is this sustainable growth or is it temporarily driven by government stimulus and intervention?

Data as of 2/3/12	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	2.2%	6.9%	2.6%	17.1%	-1.5%	2.1%
DJ Global ex US (Foreign Stocks)	2.5	10.1	-10.3	15.9	-3.7	5.9
10-year Treasury Note (Yield Only)	2.0	N/A	3.5	2.8	4.8	4.9
Gold (per ounce)	0.5	10.1	30.6	24.2	21.7	19.7
DJ-UBS Commodity Index	-0.7	3.5	-11.4	9.9	-2.5	5.0
DJ Equity All REIT TR Index	2.1	9.0	12.5	32.1	-1.5	11.1

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.

**CAN THE INTERSECTION OF TWO MOVING AVERAGES** foretell the future direction of the stock market? Chart watchers like to follow what’s called the 50-day moving average (50 DMA) and the 200-day moving average (200 DMA). These are lines which plot the closing price

of the S&P 500 index for the last 50 and 200 days. When a new day is added, the oldest day is dropped off, hence the term “moving” average.

The 200 DMA is supposed to reflect the longer-term “wave” or trend in the market while the shorter 50 DMA captures the shorter-term trend or momentum. How these two lines move relative to each other is what gets chart watchers excited.

Last week, the 50 DMA crossed *above* the slower moving 200 DMA. Market technicians refer to this as a “golden cross.” In layman’s terms it’s considered a bullish market signal, according to CNBC. In fact, Birinyi Associates said that in the 26 instances since 1962 when the 50 DMA crossed above the 200 DMA, the market was higher six months later 81 percent of the time.

Not surprisingly, when the 50 DMA crosses *below* the 200 DMA, there’s a name for that, too. It’s called a “death cross” and it’s supposed to signal bad times ahead. However, the last two “death crosses,” which occurred on August 15, 2011 and July 2, 2010, were not very prescient, according to *The Wall Street Journal*.

And, we can get further carried away with the funny technical names by throwing in the “Hindenburg Omen.” By its very name you can tell it’s not something you want to see in the markets, and, we’re happy to report, it is *not* being signaled right now.

Okay, does all this technical stuff really matter? It matters to the extent that some serious market participants invest based on these technical signals and their buying and selling based on these signals may affect the markets.

So, whether you believe in this type of market analysis or not, it may be helpful to at least be aware of it.

## **Weekly Focus – Does this make sense?**

Of our five senses, which one do you think is most important? Interestingly, if brain space indicates the importance of a sense, then vision is the most important. According to The National Geographic Society, roughly 30 percent of neurons in the brain's cortex are devoted to vision. By contrast, just 8 percent are devoted for touch and 2 percent for hearing.

Sources:

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- \* 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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