

Weekly Commentary

February 22, 2011

The Markets

The Middle East isn't the only place experiencing a protest by the people.

In Madison, Wisconsin, thousands of protesters flooded the state capital for several days last week to protest the newly-elected Republican governor's attempt to roll back state employee benefits and overhaul union rules, according to CNN. The battle is being closely watched on the national scene because if the governor succeeds, it may embolden other states to attempt similar moves.

What's playing out in Wisconsin may be a precursor to sweeping changes in our country over the next few years. Specifically, most people agree that our country is facing massive budget issues that cannot be "kicked down the road" indefinitely. With the Republicans scoring major victories in last year's election, they are now—right or wrong—trying to follow through on campaign promises to address these issues.

While most people agree that something has to be done with our country's budget issues, Wisconsin's governor is discovering that getting changes made won't be easy.

Interestingly, the stock market keeps moving up despite the political protests here and abroad. Last week, the S&P 500 rose to its highest level since June 2008 as the Federal Reserve raised its forecast for economic growth and most companies reporting earnings topped estimates, according to Bloomberg.

What could possibly derail the market's upward momentum? In a word—oil. As the unrest in the Middle East spreads, particularly in oil-rich Libya, a spike in oil prices could deflate the market if it causes the economy to slow down.

Back in Wisconsin, the protests show we have no consensus on how to solve the deficit problem. The least painful way would be to grow our way out of the hole. More likely, though, the old Fram oil filter ad presciently spells out the path, "You can pay me now, or pay me later."

Data as of 2/18/11	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.0%	6.8%	21.1%	-0.1%	0.9%	0.5%
DJ Global ex US (Foreign Stocks)	2.2	3.6	19.4	-2.6	2.5	4.6
10-year Treasury Note (Yield Only)	3.6	N/A	3.8	3.9	4.6	5.1
Gold (per ounce)	1.4	-1.9	23.7	15.3	20.1	18.2
DJ-UBS Commodity Index	0.3	0.4	21.4	-7.4	-0.3	3.9
DJ Equity All REIT TR Index	0.4	6.5	37.6	4.7	2.7	11.7

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.

HOW ARE INCOME AND INCOME TAXES DISTRIBUTED IN THE UNITED STATES?

The Internal Revenue Service recently released some data on the distribution of income and income taxes for tax years 1986 – 2007 and here's what the data shows.

Tax Payers	% of Total Adjusted Gross Income in 2007	% of Total Taxes Paid in 2007	% of Total Adjusted Gross Income in 1986	% of Total Taxes Paid in 1986
Top 1%	22.8%	40.4%	11.3%	25.8%
Top 5%	37.4	60.6	24.1	42.6
Top 10%	48.1	71.2	35.1	54.7
Top 25%	68.7	86.6	59.0	76.0
Top 50%	87.8	97.0	83.3	93.5

Source: IRS Statistics of Income Bulletin, Winter 2010

Comparing 1986 to 2007, here are some observations.

First, the rich are increasing their share of the country's total income. For example, from 1986 to 2007, the top 5 % of taxpayers increased their share of the total income of all taxpayers from 24.1 % to 37.4 %.

Second, the rich are paying a growing share of the country's total income taxes. For example, from 1986 to 2007, the top 5 % of taxpayers increased their share of the country's total income taxes paid from 42.6 % to 60.6 %.

Third, the rich pay a proportionately higher percentage of their income in taxes. For example, in 2007, the top 5 % of taxpayers accounted for 37.4 % of the total income and they paid 60.6 % of the country's total income taxes. By contrast, the bottom 50 % of all taxpayers accounted for 12.2 % of the total income and they paid 3.0 % of the country's total income taxes.

With the budget problems we're currently facing, Republicans and Democrats will finesse these types of numbers and use them to their advantage to bolster their position on how to solve our problems.

Weekly Focus – Think About It

“It's not hard to make decisions when you know what your values are.”

--Roy Disney

- * 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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