

Weekly Commentary May 16, 2011

The Markets

What are two things people tend to buy *less* of when the price *goes down*?

Normally, people like a bargain. When we go shopping, we feel much better buying things when they're 20% off or "Buy one, get the second at half price." But, there are two things that tend to buck this trend of buying when the price goes down. In fact, with these two things, people tend to buy *more* of them after their price has *run up*. Do you have your guess on what they are?

How about real estate and stocks?

According to the most recent S&P/Case-Shiller Home Price Indices, home prices on average across the U.S. are back to their summer of 2003 level, meaning, they're the cheapest they've been in about eight years. So, are Americans clamoring to buy homes? Nope. In February, new home sales in the U.S. *fell to a record low* on a seasonally adjusted annual rate, according to MarketWatch. Yet, during the boom times in 2005-2006 -- when prices and sales were at their peak -- people were buying homes like crazy and "flipping" them, according to the U.S. Census Bureau and Standard and Poor's.

Likewise, when it comes to stocks, history suggests that people tend to shun them when prices are down. For example, how many Americans were loading up the truck to buy more stocks as the market was declining to its recent low in March 2009? Not many. Yet, how many felt comfortable buying internet stocks in late 1999 as their prices were zooming?

These two examples suggest that housing and stocks are two major categories that defy traditional expectations. Knowing that, being a "contrarian" investor in these assets may be a smart long-term plan.

Data as of 5/13/11	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.2%	6.4%	17.8%	-1.6%	0.7%	0.7%
DJ Global ex US (Foreign Stocks)	-1.9	2.3	17.8	-4.8	0.5	5.1
10-year Treasury Note (Yield Only)	3.2	N/A	3.6	3.9	5.2	5.4
Gold (per ounce)	1.3	6.8	21.7	20.3	17.0	18.8
DJ-UBS Commodity Index	0.2	-1.6	22.0	-9.6	-2.3	4.0
DJ Equity All REIT TR Index	0.1	9.7	18.5	0.9	3.3	11.6

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.

WHAT IS AN INVESTMENT? This is actually an important question to answer because the range of “investments” available today goes far beyond traditional stocks and bonds. Understanding the unique characteristics of these “alternative investments” may help you avoid a negative surprise sometime down the road.

According to Investopedia, an investment is defined as “An asset or item that is purchased with the hope that it will generate income or appreciate in the future.” Sounds simple enough yet, ironically, investment professionals don’t necessarily agree on what constitutes an investment. For example, some disagree on whether gold and other commodities should be considered an investment.

On one side, some pros argue gold is an investment because it has been traded for thousands of years and has an established market where it can be bought and sold. On the other side, some say gold is not an investment because it does not generate cash flow, has no “earnings” that can be valued, and has little economic use.

Let’s contrast gold with stocks. Stocks represent a claim on a company’s assets and earnings. Using established norms of financial analysis, investment pros can place a value on those assets and earnings and come up with an estimated “fair value” for the stock (which may or may not be close to its actual trading price). However, with gold, there’s no underlying productive asset to value or earnings to capitalize so determining “fair value” is really not even possible.

Where does this leave us?

Successful investors need to know the difference between a traditional investment that consists of underlying assets and potential earnings versus an alternative investment like gold that may look like an investment, but is difficult to value using traditional financial analysis.

This doesn’t mean these non-traditional “investments” are a bad idea. It means they bear close monitoring... which we try to do.

Weekly Focus – Think About It

“Most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can’t buy what is popular and do well.” --*Warren Buffett*

* 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.

This Weekly Market Commentary has been provided by Peak for exclusive use by Louis W. Leskosky and John Naphor, registered representative **INVEST Financial Corporation**, member FINRA, SIPC. Information provided herein is presented for general information only and has been obtained from sources considered to be reliable, however is not guaranteed to be accurate or complete and is not meant as a solicitation for any product or security. Any expression of opinion does not necessarily reflect the opinion of Cornerstone Wealth Management, LLC, or INVEST Financial Corporation. INVEST Financial Corporation, its affiliates, officers, directors or branch offices may in the normal course of business have a position in any securities mentioned in this report.