

Weekly Commentary November 14, 2011

The Markets

Greece and Italy just dumped their political leaders and are hoping that new leadership will calm the financial markets and drive important structural reform.

One of the insightful bits of investing wisdom is that you don't have to recoup a loss using the same investment that caused the loss. In other words, it's okay to sell a loser and redeploy the money in another investment that may have a better chance of going up in value. That seems to be what Greece and Italy are doing with their leadership change.

Greece is now counting on Lucas Papademos and Italy is counting on Mario Monti to lead their countries out of their debt mess.

If these guys take swift action and gain credibility, it could help the markets. As *Barron's* pointed out this past weekend, "In the absence of new and nasty headlines or evidence of acute market stress, the default mode of stocks – at least for now – is to hang firm or to climb a bit."

As of last Friday, the S&P 500 index turned positive on a year-to-date basis. We'll have to wait and see if political change in Europe is enough to kick start the markets.

Data as of 11/11/11	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.9%	0.5%	5.4%	12.0%	-1.8%	1.2%
DJ Global ex US (Foreign Stocks)	-0.8	-13.1	-11.5	11.1	-3.3	5.2
10-year Treasury Note (Yield Only)	2.1	N/A	2.7	3.8	4.6	4.3
Gold (per ounce)	1.4	25.7	26.8	34.2	23.3	20.3
DJ-UBS Commodity Index	-0.4	-8.3	-3.1	5.8	-2.3	5.1
DJ Equity All REIT TR Index	-0.6	5.1	7.1	23.0	-0.7	10.5

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.

RIP VAN WINKLE SLEPT FOR 20 YEARS AND AWOKE TO DISCOVER that his world had changed dramatically. The U.S. stock market has been "asleep" for about 13 years now and in another seven, we may find our world is much different, too.

In the nearly 13 years between January 11, 1999 and last Friday, the S&P 500 index rose as high as 1,565 and dropped as low as 676. During that volatile period, we witnessed numerous impactful events including the following:

- The bursting of the dot-com bubble
- The rise of the euro
- 9/11

- The war on terrorism
- The rise and fall of the real estate bubble
- The spectacular rise of the price of gold
- The Southeast Asia tsunami and the Japan tsunami
- The rise of social media
- The Great Recession
- The sovereign debt crisis

Yet, with all those world events and the tremendous moves in the S&P 500 – both up and down – during those nearly 13 years, guess how much the S&P 500 price changed between January 11, 1999 and last Friday?

Exactly zero!

That's right. The S&P 500 closed at 1,263 on January 11, 1999 and at 1,263 last Friday, according to data from Yahoo! Finance.

Does this mean you should never invest in the stock market because it's been flat for so long? No. Here are five things to understand from this long market malaise:

1. **Dividends matter.** While there was no price change between these two time periods, reinvesting dividends or owning investments that pay dividends may have generated a positive return.
2. **Diversification matters.** The S&P 500 was flat, but some other asset classes did fine over the past 13 years, so it's important to search far and wide for investment opportunities.
3. **Perspective matters.** It's easy to get caught up in the large day-to-day swings in the market, but understanding the broader trend or context of the market is important to help prevent day-to-day volatility from causing you to make bad investment decisions.
4. **Patience matters.** As long-term investors, we're more like the tortoise than the hare. Short-term, rapid traders create a lot of noise and may lead the pack from time-to-time, but we're focused on winning at the end, not at each checkpoint.
5. **Valuation matters.** The bubble-like values placed on some companies in the late 1990s were so out of whack with normalcy that it's taken the market many years to work off those excesses. So, while patience is important, it's also necessary to understand that *valuation* at the time you make your investment could have a major impact on how long it takes to get a *return* on your investment.

Nobody knows if the market will remain “asleep” for another seven years to match Mr. Van Winkle. Regardless, the world will be different and we'll keep searching for ways to help you reach your destination without nightmares.

Weekly Focus – Think About It

“Rip Van Winkle, however, was one of those happy mortals, of foolish, well-oiled dispositions, who take the world easy, eat white bread or brown, which ever can be got with the least thought or trouble, and would rather starve on a penny than work for a pound.”

--Excerpt from *Rip Van Winkle* by Washington Irving

- * 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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