

Weekly Commentary November 28, 2011

The Markets

“It’s a small world after all.”

Living in an age of jet travel, the internet and mobile communication have its advantages. It makes our world of 7 billion people seem a bit smaller since we’re just one plane ride or “one boot of the computer” away from connecting with anyone in the world.

But, along with the good comes the bad.

Worldwide interconnectedness not only connects us socially, it also connects us economically. What happens in China, for example, doesn’t necessarily stay in China. A collapse of their real estate market or a revolt against the government could have repercussions around the world.

A bit closer to home, the sovereign debt problems in Europe are helping keep a lid on stock prices in the U.S., according to MarketWatch. As the debt problem spreads from the peripheral euro-zone countries to the core in Germany -- which had a failed bond auction last week -- the U.S. is caught in the cross fire.

What’s disappointing about being joined at the hip with Europe is that the U.S. economy is actually performing okay. Consider these positive points:

- Our trade deficit declined for the third month in September, thanks to rising exports.
- Industrial production rose strongly in October.
- Residential building improvements are touching record highs.
- October car sales hit the highest level since February.
- Consumer sentiment in November rose to the highest level since June, according to data from the University of Michigan and Thomson Reuters.
- Personal income in October showed the largest increase since March.
- Black Friday sales rose sharply from a year ago.

Sources: Economist; MarketWatch

Granted, these improvements are coming off a low base and are so fragile that the modest recovery in the U.S. could get derailed if the euro-zone situation continues to deteriorate. Our small world is now focused on Europe and whether it can pull out of its debt debacle. Time to do so is running out for our friends across the pond.

Data as of 11/25/11	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-4.7%	-7.9%	-2.6%	10.6%	-3.5%	0.0%
DJ Global ex US (Foreign Stocks)	-5.7	-21.2	-17.5	9.7	-5.3	3.8
10-year Treasury Note (Yield Only)	2.0	N/A	2.9	3.1	4.5	5.0
Gold (per ounce)	-1.8	19.7	23.0	27.2	21.5	20.0
DJ-UBS Commodity Index	-2.2	-12.7	-3.2	5.4	-3.8	4.7
DJ Equity All REIT TR Index	-5.7	-4.0	-0.2	23.4	-3.5	9.2

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.

DOES IT MAKE SENSE to invest outside of the United States? The concept of diversification suggests that you own a diverse group of investments that have uncorrelated return characteristics. One of these diverse groups of investments could include non-U.S. stocks. That might make sense because, as the following chart shows, the U.S. stock market captures less than one-third of worldwide stock market value based on market capitalization.

% of World Equity Market Capitalization			
Country	5 Years Ago	Mid August 2011	5-Year Change
1. U.S.	36.05%	29.14%	-6.91%
2. China	1.36	7.87	6.52
3. Japan	10.93	7.73	-3.20
4. UK	7.76	6.43	-1.33
5. Hong Kong	2.98	4.88	1.90
6. Canada	3.25	4.20	0.96
7. France	4.95	3.33	-1.62
8. Germany	3.35	2.80	-0.55
9. India	1.43	2.77	1.35
10. Brazil	1.34	2.72	1.37

Source: Bespoke Investment Group, August 22, 2011; *New Forces in the World Economy* by Brad Roberts

The above chart shows some interesting trends:

- The U.S. is still, by far, the largest market in the world, but it has declined substantially in the past five years.
- China has catapulted to second place with dramatic growth in the past five years.
- Japan, UK, France, and Germany join the U.S. as developed countries that have lost ground over the past five years.
- Emerging countries such as Hong Kong, India, and Brazil have shown strong relative growth.
- Although not shown on the chart, back in the late 1980s, Japan's stock market represented 45 percent of world equity market capitalization. Now, it's less than 8 percent due to a 20-year bear market.

As the world turns from developed countries to emerging ones, we are keeping our eyes open and our pencils sharpened for the investment opportunities that might arise beyond our borders.

Weekly Focus – Think About It

“We live in a wonderful world that is full of beauty, charm and adventure. There is no end to the adventures we can have if only we seek them with our eyes open.”

--Jawaharial Nehru, First prime minister of independent India

- * 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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