Weekly Commentary
December 20, 2010

The Markets

If you start your day with coffee and sugar, be prepared to start paying more for it.

Officially, the government says inflation is under control as overall consumer prices have risen just 1.1% over the past 12 months, according to the Labor Department[1]. However, the way the government measures inflation may not be indicative of what's really happening where it matters the most -- your daily habits.

Coffee and sugar are a great example. Last week, a shortage of Arabica coffee helped send coffee futures prices to a 13-year high, according to *The Wall Street Journal*[2]. For the year, coffee prices have surged 66% due to declining production and shrinking inventory, according to a December 17 *BusinessWeek*[3] article. Don't be surprised to see some of this increase showing up at your favorite Starbucks.

Moving to the tasty little white crystals, kids aren't the only ones getting a "sugar high" these days. Last week, sugar prices leaped 12% due to supply concerns and low inventory levels, according to *BusinessWeek*[4]. And, just last month, sugar prices hit a 30-year high, according to a November 4 *Wall Street Journal*[5] article. Weather problems in Brazil, the world's largest sugar exporter, have hurt sugar production and that is helping push sugar prices higher.

Coffee and sugar aren't the only commodities on the rise. Last week, the DJ-UBS Commodity Index, which measures the price of 19 commodities, rose to its highest level since October 2008, according to data from Dow Jones Indexes.

From an asset class standpoint, the "why" behind the rise in commodity prices is the key. Are they rising due to commodity-specific supply and demand issues? Are they rising due to inflationary pressures? Are they rising due to "speculative buying" as more investors start including commodity-type investments in their portfolios? No matter what the reason, we're keeping an eye on it.

Data as of 12/17/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.3%	11.6%	12.8%	-4.9%	-0.3%	-0.6%
DJ Global ex US (Foreign Stocks)	0.1	7.7	10.3	-6.7	2.2	3.5
10-year Treasury Note (Yield Only)	3.3	N/A	3.5	4.2	4.4	5.2
Gold (per ounce)	-0.5	24.0	22.5	20.1	21.9	17.6
DJ-UBS Commodity Index	1.2	11.5	14.9	-4.8	-2.3	3.2
DJ Equity All REIT TR Index	-1.1	22.3	25.7	0.3	2.4	11.5

[1] http://www.bls.gov/news.release/pdf/cpi.pdf
[2] http://online.wsj.com/article/SB10001424052748704034804576025991177398316.html?
[3] http://www.businessweek.com/news/2010-12-17/u-s-commodities-coffee-sugar-lead-rally-in-raw-materials.html
[4] http://www.businessweek.com/news/2010-12-17/u-s-commodities-coffee-sugar-lead-rally-in-raw-materials.html
[5] http://online.wsj.com/article/SB10001424052748704034804576025991177398316.html?

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.

WOULD IT SURPRISE YOU TO KNOW that the most frequently prescribed drug in America last year was a pain killer named Vicodin? Made by Abbott Laboratories, this 40-year old drug was prescribed 128 million times in 2009, according to *Forbes Magazine*[6].

As Americans, it appears that we use drugs to avoid physical pain and use borrowed money to avoid economic pain.

The parallels are eerie. Vicodin is addictive and so is borrowing money. Vicodin doesn't cure the underlying problem; it just masks the pain. Similarly, borrowing money masks underlying structural economic issues without necessarily curing them. And, Vicodin is easily accessible just like it's easy for the Fed and Congress to borrow money and pass fiscal stimulus programs.

Last week, an $858 billion tax deal was approved by Congress and it contained, "all candy and no spinach," according to Brookings Institution fellow Isabel Sawhill as reported by CNBC[7]. The deal is expected to boost the economy, but add to the deficit and the nation's ballooning national debt of $13.8 trillion, according to CNBC. The country may have just swallowed a national Vicodin pill.

Our political leaders passed this deal because they believe it will act as kindling wood for economic growth. If it does, we may be able to grow our way out of the fiscal hole we're in. If not, then we've just kicked the pain down the road. Famed investor Jim Rogers[8] is not convinced. He says, "If you look at the numbers, there's no way the U.S. can ever pay off its debt." Likewise, Vitaliy Katsenelson[9], chief investment officer at Investment Research Associates in Denver, says, "Japan is proof that a country cannot borrow itself to prosperity."

Let's hope Rogers and Katsenelson will both be eating crow in the near future.

Weekly Focus – Think About It

"Some debts are fun when you are acquiring them, but none are fun when you set about retiring them." --*Ogden Nash*

Best regards,

Scott Lask
Securities offered through Wedbush Securities Inc., Member NYSE/FINRA/SIPC.

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[6] http://www.forbes.com/2010/05/11/narcotic-painkiller-vicodin-business-healthcare-popular-drugs.html
[7] http://www.forbes.com/2010/05/11/narcotic-painkiller-vicodin-business-healthcare-popular-drugs.html
[8] http://www.thestreet.com/story/10949845/5/jim-rogers-talks-china-gold-commodities.html
[9] http://finance.yahoo.com/tech-ticker/u.s.-must-%22man-up-and-take-the-pain%22-or-we'll-become-japan-katsenelson-says-535701.html?tickers=EWJ,TBT,TLT,UUP,UDN,%5EN225,TIP

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

* 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.

* 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.

* 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 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.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.