Weekly Commentary
June 13, 2011

The Markets

To rework one of the Beatles most famous songs, our economy is traveling "The Long, Winding and Bumpy Road."

After doubling in value by the end of April from the March 2009 low, the Standard & Poor's 500 index has now declined for six straight weeks, according to Minyanville[1] and *The Wall Street Journal*. [2]While the doubling in stock prices is quite impressive, the economy hasn't kept up. Currently, we're experiencing "bumps" along the economic road including a double-dip in housing prices, weak first quarter economic growth, a high unemployment rate, and ballooning government debt, according to *The Wall Street Journal*.[3]

Our modest economic recovery is in line with what PIMCO dubbed "The New Normal" in 2009. [4] Back then, PIMCO suggested we would experience 3-5 years of a bifurcated world economy. [5]Specifically, they expected advanced countries to endure a period of sluggish growth, persistently high unemployment, public debt and deficit issues, increased regulation, and continuous pressures for private sector deleveraging. By contrast, they expected emerging economies to prosper with high growth rates and a closing of the income and wealth gap relative to advanced economies.

So far, their New Normal scenario is generally playing out across the world.

The latest bumps have kept our policy makers up at night trying to figure out how to drive our economy forward and create more jobs. This month's ending of the Federal Reserve's $600 billion bond-buying program known as QE2 will remove one form of monetary stimulus and possibly expose the economy to more volatility, according to MarketWatch.[6] Rather than pick up the slack, Congress is having difficulty coming to terms on fiscal policy that might rev up the economy.

Like Nero fiddling while Rome burns, our economy is drifting out to sea and in need of strong leadership across the political spectrum to get it back to port.

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[1] http://www.minyanville.com/businessmarkets/articles/stocks-stock-market-daily-recap-after/4/28/2011/id/34230

[2] http://online.wsj.com/article/SB10001424052702304259304576377051184752240.html?mod=WSJ_hp_LEFTTopStories

[3] http://online.wsj.com/article/SB10001424052702304259304576377502563525890.html?mod=WSJ_hpp_MIDDLE_Video_Top

[4] http://media.pimco.com/Documents/SO011-051011_US_FINAL_v2.pdf

[5] http://www.businessinsider.com/henry-blodget-pimcos-el-erian-explains-the-new-normal-global-stagflation-2009-5

[6] http://www.marketwatch.com/story/fed-balance-sheet-grows-to-record-282-trillion-2011-06-09

Data as of 6/10/11	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-2.2%	1.1%	16.4%	-2.2%	0.5%	0.1%
DJ Global ex US (Foreign Stocks)	-2.4	-0.4	23.6	-4.2	2.1	5.0
10-year Treasury Note (Yield Only)	3.0	N/A	3.3	4.1	5.0	5.3
Gold (per ounce)	-0.7	8.4	25.6	20.3	20.2	19.0
DJ-UBS Commodity Index	-0.2	2.0	33.4	-9.0	-0.6	4.5
DJ Equity All REIT TR Index	-4.0	5.3	20.9	1.2	2.4	10.6

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 IF YOU HAD A MAGIC NEWSPAPER and were able to read tomorrow's economic news today? Do you think you could successfully invest with that information?

It would make investing a lot easier, right? Well, maybe not.

Super investor Warren Buffett famously said, "If (Federal Reserve Chairman) Ben Bernanke whispered in my ear exactly what he's going to do tomorrow, it wouldn't change anything I'm going to do today," according to CNBC.[7] The problem is it's difficult to know how the market will interpret any given piece of information.

Take oil prices as an example. If we whispered in your ear that oil prices would fall $2 per barrel tomorrow, do you think that would be bullish or bearish for the stock market? In reality, it probably depends on the *reason* for the fall.

Generally speaking, falling oil prices are good for the economy because it lowers the cost of gas and may allow consumers to spend more money, which could lead to higher corporate profits. With that backdrop, if oil prices fell due to oversupply, it might be bullish for the stock market because consumers would have more money to spend. However, if oil prices fell due to a slowing economy, the stock market might sell-off because some consumers would lose their jobs and reduce spending, according to CNBC.[8]

So, even if you knew what was going to happen to oil prices tomorrow, you'd still need to know the "why" behind the price change to predict its impact on the stock market. And oil is just one example. Think about the myriad of economic indicators, corporate announcements, political wrangling, regulatory actions, and other things that happen each week that could affect the stock market. Trying to track all these factors and accurately discern their impact on the market would be futile.

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[7] http://www.cnbc.com/id/22198994/Warren_Buffett_to_CNBC_Fed_Rate_Moves_Shouldn_t_Matter_to_Long_Term_Investors

[8] http://www.cnbc.com/id/43311445

Call us old-fashioned, but we'd rather stick to our investment process than spend time trying to guess the Federal Reserve's next move or the impact of a $2 change in oil prices. It's process rather than prognostication.

Weekly Focus – Think About It

"All of the great leaders have had one characteristic in common: it was the willingness to confront unequivocally the major anxiety of their people in their time. This, and not much else, is the essence of leadership."[9]

--John Kenneth Galbraith

Best Regards,
Scott M. Lask

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.

[9] http://www.leadership501.com/leadership-quotes/316/

- 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.

- Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

- Past performance does not guarantee future results.

- You cannot invest directly in an index.

- Consult your financial professional before making any investment decision.

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