

Weekly Commentary February 11, 2008

The Markets

Whether you call it news or noise, it sure moved the markets last week.

The Institute of Supply Management (ISM) released its services sector index last Tuesday and the figure was well below what economists were expecting. The figure indicated that the services sector of our economy, which accounts for about two-thirds of economic activity, is contracting, according to FOX Business Network. In plain English that suggests the odds of a recession are rising. The announcement sent the stock market into a tailspin on Tuesday and by the end of the week, the major averages endured losses that pretty much wiped out the previous week's gains.

Should we be worried about the weak ISM number? According to JPMorgan equities analyst Thomas J. Lee, as reported by the Associated Press, "The three worst readings on record in the ISM's service sector index are associated with stocks rising in the ensuing three months—on average, by 6 percent." As always, past performance is no guarantee of future results.

Just a week earlier, the ISM released its *manufacturing* sector index and, according to *The Wall Street Journal*, it rose more than expected in December. This conflicting data on the economy may indicate that we are in a transition phase. Specifically, we could be heading toward a recession, or, we could be experiencing the pause that refreshes. Of course, only time will tell where we land.

On the positive side, the Commerce Department said last week that orders for durable goods (i.e., big-ticket items) rose 5.2 percent in December. That was well above expectations, according to MarketWatch.

Yes, we have lots of news and noise each week and part of our job is to distinguish between the two and try to position your investments appropriately. And we do our best in that regard.

Returns through 2/8/08	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	-4.4	-8.2	-3.2	4.3	9.0	4.1
Nasdaq Composite	-4.5	-13.1	-6.3	3.4	12.2	3.1
Standard & Poor's 500	-4.6	-9.3	-7.4	3.5	9.8	2.8

Sources: Yahoo! Finance, Barron's. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. Three-, 5-, and 10-year returns are annualized. Assumes dividends are not reinvested.

WHAT WAS YOUR FAVORITE SUPER BOWL COMMERCIAL? Do you think your preferences might impact the advertising companies' stock price? According to researchers from the University at Buffalo School of Management and Cornell University, when TV viewers like a company's Super Bowl commercial, the company's stock price goes up. Using ratings gathered by *USA Today's* Ad Meter, a real-time consumer likeability ranking of Super Bowl commercials, researchers examined 529 commercials that aired during 17 Super Bowls from 1989-2005. They

found that firms with the most likeable commercials had higher than normal stock purchases on the days following the Super Bowl, which increased the firms' stock price.

Commenting on the irrationality of deciding to buy stocks based on a TV commercial instead of an analysis of a firm's long-term value, Kenneth A. Kim, associate professor of finance in the UB School of Management, said, "If the likeability of the commercials caused a subsequent increase in company sales, a stock increase would make sense, but we did not find this to be the case."

Further, Kim stresses his findings demonstrate the phenomena of how investors are prone to taking mental shortcuts rather than complete thorough analysis. He says the commercial viewers he studied used a mental short cut known as "representativeness bias" because they irrationally related one aspect of a firm, its commercial, to its expected stock returns. That's the kind of irrational leap we make everyday if we assume that a clean car is a mechanically sound car or that a tall person is a good basketball player.

Interestingly, this year's Super Bowl can be used to illustrate another behavioral bias that's prevalent in our investment decision-making. Often, investors mistakenly believe that recent past returns are representative of what they can expect in the future. Of course, you need look only as far as the media expecting the 18-0 New England Patriots to continue their winning ways and defeat the New York Giants to understand the folly of that approach.

SHOULD PUBLIC COMPANIES STOP THE LONG-STANDING PROCESS of providing quarterly earnings guidance to Wall Street? That idea has drawn widespread support from the nation's chief financial officers (CFOs). A recent survey conducted by Financial Executives International (FEI) and Baruch College's Zicklin School of Business found that 81 percent of the responding CFOs backed the proposed end to the quarterly guidance. The press release noted that financial executives complained that the current system forces companies to manage Wall Street's expectations on a short-term basis and takes up too much management time.

According to the announcement, six in ten CFOs also backed a proposal to go to a semi-annual financial reporting system. The CFO Outlook Survey interviewed 361 corporate CFOs electronically the week of January 7, 2008.

Best regards,

"Your Name Here"

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.

Securities offered through **"Your B/D Name Here,"** Member FINRA/SIPC.

* 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 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. Due to ongoing market volatility, current performance may be more or less than the results shown in this white paper.
- * To unsubscribe from the “Enter the name of your commentary” please [click here](#), or write us at “Your Address Here”.
- * To unsubscribe from the “Enter the name of your commentary” please reply to this e-mail with “Unsubscribe” in the subject line, or write us at “Your Address Here”.