

## Weekly Commentary May 12, 2008

### The Markets

Soaring crude oil prices helped put the kibosh on a three-week winning streak in the stock market, according to the *Wall Street Journal*.

The *Journal* reported that for the six trading days ending May 9, crude oil prices surged 11.8% and ended at a record price of just under \$126 per barrel. Not helping matters was a May 6 Goldman Sachs report, which said, "The possibility of \$150-\$200 per barrel seems increasingly likely over the next 6-24 months." Pundits frequently cite supply constraints, healthy demand, and good old-fashioned speculation as culprits of the rise.

Now, if there's any truth to basic economics, then worldwide demand for oil should start falling at some point because of the huge surge in price. We'll see.

While oil hogged the spotlight last week, there were a few other bright spots worth noting. *Barron's* said, "The service sector expanded in April for the first time this year, weekly unemployment claims stayed tame, and retail sales in April, boosted by an extra shopping day this year, were less dire than many had feared." These reports suggest that the economy, while soft, is not currently falling off a cliff.

And, of course, we have corporate earnings. So far, more than 400 companies in the S&P 500 have reported their quarterly earnings and their average earnings are down about 17% from a year ago, according to Thomson Financial. While that's a big drop, "Most of the problems lie with the ailing financial sector, where results remain crushed by write-downs linked to bad home loans," according to MarketWatch.

Illustrating that some companies are still performing well in this economy, The Walt Disney Company reported last week a 32% increase in quarterly earnings per share, which handily beat analysts' estimates, according to MarketWatch.

Looks like kids just can't get enough of the Jonas Brothers and Hannah Montana!

Returns through 5/9/08	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	-2.4	-3.9	-4.4	7.1	8.2	3.4
NASDAQ Composite	-1.3	-7.8	-4.6	7.3	10.0	2.8
Standard & Poor's 500	-1.8	-5.5	-7.8	5.6	8.3	2.3

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.

### HOW ARE INCOME AND INCOME TAXES DISTRIBUTED IN THE UNITED STATES?

The Internal Revenue Service recently released some data on the distribution of income and income taxes for tax years 1995 – 2005 and here's what the data shows:

<b>Tax Payers</b>	<b>% of Total Adjusted Gross Income in 2005</b>	<b>% of Total Taxes Paid in 2005</b>	<b>% of Total Adjusted Gross Income in 1995</b>	<b>% of Total Taxes Paid in 1995</b>
Top 1%	21.2%	39.4%	14.6%	30.3%
Top 5%	35.8	59.7	28.8	48.9
Top 10%	46.4	70.3	40.2	60.8
Top 25%	67.5	86.0	63.4	80.4
Top 50%	87.2	96.9	85.5	95.4

Source: IRS Statistics of Income Bulletin, Winter 2008

Comparing 1995 to 2005, here are some conclusions we can draw:

First, the rich are increasing their share of the country's total income. For example, from 1995 to 2005, the top 5% of taxpayers increased their share of the total income of all taxpayers from 28.8% to 35.8%.

Second, the rich are paying a growing share of the country's total income taxes. For example, from 1995 to 2005, the top 5% of taxpayers increased their share of the country's total income taxes paid from 48.9% to 59.7%.

Third, the rich pay a proportionately higher percentage of their income in taxes. For example, in 2005, the top 1% of taxpayers accounted for 21.2% of the total income and they paid 39.4% of the country's total income taxes. By contrast, the bottom 50% of all taxpayers accounted for 12.8% of the total income and they paid 3.1% of the country's total income taxes.

The data shows the progressive nature of our tax system in which wealthier people pay a proportionately higher percentage of their income in taxes. With this being an election year, the country's tax policies will likely be a key debate item. As a result, don't be surprised to see some changes over the next four years.

## **Weekly Focus – What's Your Cookie?**

During an old episode of Sesame Street, the Cookie Monster participated in a game show. As a prize winner, he got to choose among door #1, which contained \$1 million, door #2, which contained a French chateau, and door #3, which contained a cookie.

He chose the cookie.

We all have a cookie in our life. What's yours?