

Weekly Commentary May 27, 2008

The Markets

Oil prices up, stock market down. That just about sums up last week's market action.

After rising 57% in 2007, the price of a barrel of crude oil has risen another 38% so far in 2008—and it's starting to hurt, according to *Barron's*. Oil is a key ingredient in so many different products that many companies are now passing along their cost increase to consumers. For example, Kimberly-Clark Corp. just announced that this summer, prices will rise 6 – 8% on Kleenex facial tissue, Cottonelle and Scott bathroom tissue, Viva paper towels, Huggies diapers and Pull-Ups training pants. That's on top of a 4 – 7% increase on those same products just three months ago, according to MarketWatch.

Airlines are one of the industries most directly affected by high energy prices since a significant percentage of their costs come from jet fuel. Over the past year, jet fuel has risen 86% and the airlines are scrambling to adjust, according to Reuters. American Airlines announced last week it was cutting its capacity by 11 – 12% and instituting a \$15 fee for each checked bag, according to Briefing.com. United Airlines announced it was raising round-trip fares by as much as \$60, according to *Barron's*.

It may be too little too late for the airlines. Last week alone, the stock price of United Airlines dropped 46%, American Airlines dropped 31%, and Northwest Airlines dropped 29%, according to data from Yahoo! Finance.

It's expensive to fly. It's expensive to drive. Maybe video-conferencing will turn out to be “the next best thing to being there.”

With Memorial Day behind us and the summer season ahead of us, we'll closely monitor whether this will be a long, hot summer on Wall Street, or a turning point to a new bull market.

Returns through 5/23/08	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	-3.9	-5.9	-7.6	5.8	7.7	3.4
Nasdaq Composite	-3.3	-7.8	-4.4	5.9	10.1	3.2
Standard & Poor's 500	-3.5	-6.3	-9.2	4.9	8.1	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.

IF YOU'RE LIKE MANY AMERICANS, there's a good chance you saw the new *Indiana Jones* movie over the Memorial Day weekend. Did you notice the cost of your ticket and the cost of that popcorn and soft drink? Well, thanks to the rising cost of energy, don't be surprised to see the price of your movie ticket rise by as much as 30% this year, according to Richard Gil, a University of Santa Cruz economist.

So what's the relationship between the price of a movie ticket and rising energy prices? In a word—corn.

Those outrageous prices for movie theater popcorn, soft drinks and candy actually subsidize the price of a movie ticket by about 25%, according to a May 19 *Advertising Age* article. And guess what's happening to the price of corn? It's skyrocketing because corn is a key ingredient in ethanol. As much as 35% of this year's corn

crop will go toward ethanol production, thus leaving less for us to munch on at the theater, according to an Agriculture Department report.

Without much room to raise the already high popcorn, soft drink and candy prices, theater owners will likely have to raise ticket prices to maintain their margins. And to make matters worse, *Advertising Age* reported that in the past 18 months, “the cost of coconut oil used for popping corn has risen 24%...and the price of the paper pulp to produce popcorn tubs has jumped 40% in the past 36 months, making the tub more expensive than the corn inside it.”

If it's any consolation, the Motion Picture Association of America said that adjusted for inflation, a movie ticket costs less today than it did 31 years ago. So the moral of the story is, enjoy those “cheap” movie ticket prices while they last.

Weekly Focus – Memorial Day

“A hero is someone who has given his or her life to something bigger than oneself.”
--Joseph Campbell

As another Memorial Day gives way to summer, let's not forget the sacrifices our brave men and women made to secure our freedom. They paid the ultimate price and we are forever grateful.

Best regards,

The Advocate Group

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.

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