

## Weekly Commentary June 23, 2008

### The Markets

The three Cs—credit, crude, and consumers—are still impacting the direction of the financial markets.

Just when you think the credit markets have reached bottom, another multi-billion dollar write-down seems to pop up. Last week, Citigroup warned that it may take additional markdowns on its subprime portfolio when it announces second quarter earnings in July, according to TheStreet.com. In the first quarter, Citigroup took about \$12 billion in pretax write-downs and investors had hoped that would be the end of it. In addition to Citigroup's problems, two bond insurers lost their Moody's "AAA" rating and regional bank Fifth Third Bancorp said it needs to raise \$2 billion in capital to help stabilize its financial position, according to Associated Press. Until the financial sector stabilizes, it may be difficult for the stock market to find its footing.

Crude oil prices continued to grab headlines last week as the price of a barrel of crude closed near \$135 per barrel, according to MarketWatch. News of supply disruptions in Nigeria and tough talk between Israel and Iran helped keep prices high. Gas prices are also uncomfortably high as they averaged \$4.13 per gallon as of June 16. A year ago, the average nationwide gas price was \$3.06 per gallon. No doubt many Americans are reevaluating their travel plans for the summer.

Consumers are a wildcard and in this tough environment, the question is, how much will they pullback their spending? If they cutback significantly, that may ripple through the economy and send us into a significant recession. So far, that does not appear to be happening. Consumers may not be as flush as they were a year or two ago, but their spending hasn't fallen off a cliff.

We will continue to monitor the three Cs and make opportunistic portfolio adjustments as appropriate. In the meantime, as the old saying goes, "Patience is a virtue." We believe that is true when it comes to investing and we believe that our patience will be rewarded.

Returns through 6/20/08	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	-3.8	-10.7	-11.4	3.7	5.2	3.1
NASDAQ Composite	-2.0	-9.3	-7.1	4.8	7.9	2.9
Standard & Poor's 500	-3.1	-10.2	-12.3	2.7	5.8	1.8

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

**WE ALL KNOW THAT OIL PRICES HAVE RISEN DRAMATICALLY** over the past few years, but a recent June 12 research piece from Bespoke Investment Group put it in perspective. The article pointed out that the price of a barrel of oil has risen by 730% from November 19, 2001, to its recent record close on June 6 of about \$139 per barrel. By comparison, that looks eerily similar to the NASDAQ Composite Index's rise of 640% between June 24, 1994, and its record high of 5048 on March 10, 2000.

So what happened to the NASDAQ in the years following its 640% rise? It plunged by 78% in less than three years, according to Bespoke.

In fact, the NASDAQ still has not surpassed its 2000 high. The big question is, will oil prices follow a similar pattern and drop precipitously? There are heated opinions on both sides of that question.

Some people believe that we've entered a "new era" in which strong demand from countries such as China and India will outstrip the supply of oil and thus, create a long-term energy problem that will result in high oil prices. Others believe oil prices are in bubble territory and that they'll eventually "pop" when demand slows and alternative energy sources are developed.

One thing we can say with some confidence is that asset prices sometimes reflect human emotions. There seems to be a little bit of fear and greed in all of us and occasionally, it manifests itself in asset prices that go from one extreme to another. We've seen it in the NASDAQ. We've seen it in the housing market. And, now we're seeing it in the oil market.

Just how high energy prices will rise and how far they'll fall is anybody's guess. Fortunately, we're not in the business of guessing. Instead, we're in the business of helping grow and protect our clients' assets. To that end, we're doing everything we can to help you benefit regardless of what happens to the cost of energy.

### **Weekly Focus – Do You Agree With This List?**

What are the technologies that have changed our life the most? Here's LiveScience.com's list of the top 10 disruptive technologies:

10. Magnetic strip card
9. Gun powder
8. Iron smelting
7. Rubber
6. X-rays
5. Microprocessor
4. Electricity
3. Nuclear fission
2. Flight
1. Internet

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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\* 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.
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