

# Weekly Commentary

## July 7, 2008

### The Markets

With the second quarter in the history books, we'll take a brief look back at what affected the markets over the first half of this year.

Returns through 6/30/08	2 <sup>nd</sup> Quarter	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	-7.4	-14.4	-15.4	3.4	4.8	2.4
NASDAQ Composite	0.6	-13.6	-11.9	3.7	7.2	1.9
Standard & Poor's 500	-3.2	-12.9	-14.9	2.4	5.6	1.2

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.

### COMMODITY PRICES CONTINUED TO MAKE HEADLINES

The unrelenting rise in oil prices continued in the second quarter as a barrel of crude rose 37.8% in the second quarter and nearly 46% so far this year, according to MarketWatch. Gas prices rose in tandem as the average U.S. retail price for a gallon of regular gasoline climbed to a record \$4.086 on June 30, according to MarketWatch. The AAA Daily Fuel Gauge Report says that's a 40% increase from a year ago. Ouch! Precious metals were on a tear, too. Gold prices rose about 1% for the quarter and are up about 11% this year. Silver prices are up more than 17% this year while platinum is up more than 35%. Even copper prices are up more than 27% this year, according to MarketWatch. These steep increases have kept pressure on stock prices.

### INFLATION REMAINED TOP OF MIND WITH INVESTORS

The consumer price index rose 4.2% for the 12 months ending May 2008, according to the Labor Department. That's uncomfortably above the Federal Reserve's presumed comfort zone of 1-2%, according to Pacific Investment Management Company (PIMCO). Of course, rising commodity prices are a big factor in the inflation number. The Federal Reserve is in a tight spot because under normal circumstances, they might raise interest rates to help squash inflation. Unfortunately, we're in the midst of an economic slowdown with tight credit conditions, so raising interest rates would run the risk of throwing the economy into even greater turmoil. The Fed seems to be trying to walk a fine line between keeping rates low to help the economy, but not too low that it fosters out of control inflation and a plunging dollar. The way the markets have reacted so far this year, it appears that the Fed has some fine-tuning to do.

### THE CREDIT MARKETS ARE STILL HAVING PROBLEMS

By now, everyone's familiar with the subprime problems and the havoc they've caused. The new concern is that the subprime problems may migrate into problems with home equity lines of credit and other forms of credit, according to Barron's. With the value of homes dropping, homeowners have less equity and lenders are starting to get stingy with credit. This could ripple through the economy and create additional strain. Surprisingly, even though the Federal Reserve has cut the Fed Funds rate from 4.25% at the end of 2007 to 2.0% by the end of April 2008, the average rate on a 30-year mortgage has hardly budged. During that time, it went from about 6.2% to about 6.0%, according to Freddie Mac. However, by early July 2008, the average rate on a 30-year mortgage had risen to more than 6.3%. Stubborn mortgage rates coupled with tight credit conditions are not helping the housing recovery.

### HOUSING WOES CONTINUE

The 20-City Composite index published by S&P/Case-Shiller showed a 15.3% year-over-year decline in housing prices as of April 2008. All 20 cities in the index showed a decline, ten of which are in double-digits. Las Vegas, NV, Miami, FL, and Phoenix, AZ, took the top three spots with declines of 25% or greater, while Charlotte, NC, showed the most resilience with just a miniscule decline of 0.1%. One key to the economy is to

get housing prices to stabilize. As it stands now, many would-be homebuyers are sitting on their thumbs rather than buying a home that may depreciate further. If prices level off, it might encourage them to jump into the market – which would be a good thing!

### **THE JOB MARKET IS WEAKENING**

The U.S. economy has shed jobs each month this year for a total loss of 438,000 jobs. The unemployment rate stayed stuck at a four-year high of 5.5% at the end of June, according to the Labor Department. As quoted in MarketWatch, Joel Naroff, president of Naroff Economic Advisers, said the June employment report doesn't “point to an economy that is crashing and burning,” but “it is consistent with an economy that is in a deep funk.” Not all industries are suffering. The upside to high commodity prices is that it's keeping many energy-related companies in a hiring mood. Also, the weak dollar is helping the manufacturing sector – or at least keeping it from getting worse than it would be otherwise.

### **WINNERS AND LOSERS**

By broadening our horizon, we find that there are winners and losers throughout the world's stock markets. Here is a partial list of second-quarter performance ranked by U.S. dollar returns.

#### Winners

Jordan	23.7%
Brazil	17.7%
Russia	10.5%
Canada	8.9%
Czech Republic	8.7%

Source: Dow Jones Indexes

#### Losers

Pakistan	-28.2%
Philippines	-22.4%
India	-20.0%
Chile	-18.3%
Ireland	-17.1%

Source: Dow Jones Indexes

The Dow Jones World index, which excludes U.S. stocks, fell 2.5% in dollar terms in the second quarter, according to the *Wall Street Journal*. For the one-year ending June 30, 2008, the Dow Jones World Index is down 10.3%. The one-year decline is somewhat better than the nearly 15% decline over that same period in the S&P 500. While we do believe it is appropriate to diversify your investments, there are times when stock markets around the world will act somewhat in unison – to the downside. This seems to be one of those times.

### **Weekly Focus – Be Positive**

Yes, there's been a dearth of good financial news over the past few months, but we strongly believe that things will eventually turn around. Once the economy works through the excesses of the housing bubble and commodity prices begin to stabilize, we may see a powerful new rally. As always, we continue to work hard on your behalf to try to meet your goals and objectives. We very much appreciate the opportunity to work with you.

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.

\* 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.

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