



THE ADVOCATE GROUP

A Bridge to Financial Clarity

Weekly Commentary August 18, 2008

The Markets

The tug of war in the stock market ended in just about a draw last week as the Standard & Poor's 500 index rose a fraction.

Since the beginning of the year, the S&P 500 index has traded in a range roughly between 1,215 and 1,450, according to data from Yahoo! Finance. However, when you consider the weakness this year in the financial and homebuilding sectors, the rise in oil prices, and the inflation spurt, we might view it as a positive accomplishment that the market is only down about 12% year-to-date as measured by the S&P 500 index. When you dig deep into the market, there's been significant turbulence in certain sectors (e.g., financials and homebuilders), but some of that weakness has been offset by strength in the transportation and commodities sectors, according to Morningstar.

Of late, a stronger dollar and declining oil prices have helped breathe life into the markets. As of last Friday, the dollar had appreciated for 11 straight days against the euro, according to *Barron's*. While you never know for sure what causes a run like that, some of the "experts" suggest it's due to weakening international economies. So, while the U.S. economy may be weak, other countries are starting to slow and that may make the U.S. look a little better on a relative basis.

August is frequently a peak time for Wall Street titans to retreat to the Hamptons and other upscale locales to soak up some sun and relax. As a result, stock market volume has been relatively light this month, so it's hard to draw any conclusions from the recent market action. As we head into the fall and get another round of quarterly earnings, that may change. Stay tuned...

Returns through 8/15/08	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	-0.6	-12.1	-10.9	3.1	4.6	3.1
NASDAQ Composite	1.6	-7.5	-2.1	4.2	7.6	3.0
Standard & Poor's 500	0.2	-11.6	-10.2	1.7	5.6	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.

WHY DOES THE PRICE OF A STOCK FLUCTUATE? Theoretically, you could argue that stock prices are simply a function of supply and demand, but that's so broad that it's not very useful in trying to determine the future direction of stocks. Over time, two main schools of stock analysis have developed – fundamental analysis and technical analysis. Fundamental analysts use financial data such as revenue and earnings to try and determine a company's underlying value and potential for future growth. Technical analysts use charts based on market activity such as past prices and volume to try and identify the future direction of the stock. Devotees on each side vigorously defend their chosen method.

There's also a third, but less understood, method of stock analysis called cycle analysis. This school of analysis looks at things such as harmonics (don't ask), Elliott Waves, Kondratieff Waves, Gann patterns, presidential cycles, 40-week cycles, 20-week cycles and yes, even astrological cycles. Cycle adherents are very quantitative and believe the markets are driven by mathematical patterns that are not readily observable. Of course, "cyclists" stand ready to discern these patterns for you for a fee.

So, which school of analysis is the best? In reality, they all may have a place. The reason is, there are some market participants who believe in and invest based on these schools. If enough of them act at the same time, that ends up driving demand for a stock and could cause it to go up or down. Unfortunately, there's no way to measure or predict the impact of any one school on the price of a stock or the market as a whole.

Over long periods of time, stock prices tend to reflect the underlying earnings of the company. If you can get the earnings right, and figure it out before the "crowd" does, then you may have a winning strategy. Of course, that's no easy task.

Weekly Focus – Mind Reading?

The U.S. Army awarded scientists a \$4 million grant to study brain signals in an attempt to "decipher what a person is thinking and to whom the person wants to direct the message," according to an August 15 Associated Press story. Using brain wave-reading technology known as electroencephalography, or EEG, scientists had volunteers wear an electrode cap and then they asked the volunteers to think of a word chosen by the scientists. The scientists then analyzed the brain activity. In what may be a scary thought (pun intended), the scientists, "hope to develop thought-recognition software that would allow a computer to speak or type out a person's thought," according to the article. And, now you know where our tax dollars go.

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.

* Past performance does not guarantee future results.

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