



THE ADVOCATE GROUP

A Bridge to Financial Clarity

Weekly Commentary September 8, 2008

The Markets

Earlier this year, some investors thought the key to a rising stock market was to see a big drop in the price of oil. Well, we've now seen a 27% drop in the price of oil since its July 3 closing high, but, as of last Friday, stock prices were still languishing near their July lows, according to Associated Press. So, what's the deal?

The deal is investors can be fickle. They're prone to quickly changing their minds based on which way the wind is blowing. Oil is a good example. Here's a brief chronology of investors' fickleness toward oil:

- For the first few months of 2008, we kept hearing about how strong economic growth in China, India, Brazil, and other emerging economies was pushing up the price of oil and that it wasn't a bubble, rather, it was a simple case of supply and demand.
- During that same time, the U.S. stock market weakened as investors fretted that higher energy prices would ignite rampant inflation and tip the U.S. into a recession.
- As oil prices rose to \$145 per barrel in July and the U.S. stock market entered a bear market, economic pundits started suggesting that if oil prices would drop significantly, that would be the spark necessary to jumpstart our economy and fire up the stock market.
- As if on cue, by Friday, September 5, oil prices ended the day down 27% from their July 3 high, while the Dow Jones Industrial Average was up only 2% during that same period, according to data from Yahoo! Finance.
- Now, some market pundits are saying that falling oil prices are due to *weakening* demand from *faltering* global economies, according to Associated Press. That could be bad news for our stock market because strong exports have been one bright spot in corporate earnings. If export demand weakens, that could translate into lower corporate profits and lower stock prices.

That sure makes a neat and tidy narrative, doesn't it? Wall Street talking heads love to take the complexities of investing and turn them into short stories that can be easily understood. We're all in favor of a good story well told, but when it comes to investing, we prefer non-fiction to fiction. Part of our job as stewards of your money is to try to separate the fictional stories from the non-fictional. And, when the story changes frequently – like it has recently – we become especially alert.

Returns through 9/5/08	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	-2.8	-15.4	-14.4	2.0	3.4	3.4
NASDAQ Composite	-4.7	-15.0	-12.1	1.4	4.0	3.1
Standard & Poor's 500	-3.2	-15.4	-14.5	0.2	4.0	2.0

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.

DO FINANCIAL MARKETS EFFICIENTLY AND EFFECTIVELY reflect all available relevant information? Some academicians believe that you cannot “beat” the stock market. They believe that the market is smarter than any one individual and that stocks always trade at their fair value. As such, they suggest it is not possible – over a long period of time – for an investor to outperform a broad-based stock index. They call this the “efficient market hypothesis.”

Critics of the hypothesis point to super investors like Peter Lynch and Warren Buffett who have long-term track records that show they’ve outperformed the market. Academics don’t dispute that some people have beat the market, but the academics chalk that up to luck and statistical anomalies. They also point out that it is near impossible to identify ahead of time the next Peter Lynch or Warren Buffett, so, most people can’t benefit from those few outliers.

Putting the debate aside for a moment, in the investing world, there appears to be three camps. There’s the “If you can’t beat’em, join’em” camp that says markets are efficient and you might as well just invest in products designed to mimic broad market averages. These folks tend to focus on making an appropriate allocation to various asset classes. The second group says, “Yes, I can beat’em.” They think discipline and research may lead to superior market returns. Then there’s a third group that is in the “A little of both” camp. They think the other two sides have merit and it makes sense to manage portfolios using both passive and active strategies.

So, which camp is right? Like many things in investing, it’s not always black and white. Reasonable people could make a case for each of these three strategies. And, at any given time, one strategy might work better than the other. Understanding that may make all of us better investors.

Weekly Focus – Key to Health and Happiness

Various researchers have concluded that one key to health and happiness is to actively try to become more grateful in our everyday lives, according to an article in *Great Good* magazine. Here are four steps we can all take toward that end:

1. Write a letter of gratitude to someone you’ve never properly thanked and deliver it in person.
2. Keep a gratitude journal of everything for which you’re grateful.
3. Savor life’s little joys that come your way.
4. Think out of the box and thank people that you might not ordinarily thank.

Give these ideas a try and see if your life improves!

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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