



## THE ADVOCATE GROUP

*A Bridge to Financial Clarity*

### Weekly Commentary September 15, 2008

#### The Markets

Despite a barrel full of bad news, the stock market actually ended last week with a modest gain.

Some of the most significant news last week continued to come from the financial sector. At the beginning of the week, the government stepped in to bailout the giant mortgage lenders Fannie Mae and Freddie Mac. That was bad news for stockholders of those two companies, but the overall stock market greeted the news with excitement. On Monday, the Dow Jones Industrial Average soared 289 points. Unfortunately, the excitement was short-lived.

The very next day, investment bank Lehman Brothers took the spotlight and it wasn't pretty. Investors were hoping the firm would find a partner to inject additional capital, but none materialized, according to MarketWatch. Lehman stock dropped nearly 45% that day and it helped send the Dow down 280 points – all but erasing the previous day's gain.

As the week progressed, things continued to deteriorate in the financial sector as Merrill Lynch and American International Group both got caught up in aggressive selling. By the end of the week, Merrill Lynch stock had dropped 36% and American International Group had lost 46% according to data from Yahoo! Finance.

Soured real estate investments coupled with a loss of confidence are the main culprits of the declining stock prices in the financial sector. Fortunately, not all financial companies are in trouble. Some major firms avoided the brunt of the real estate crunch and, as a result, they may become stronger as the weaker players get absorbed.

On a more positive note, we did receive some good news in the oil sector. Oil prices dropped 4.8% last week and that may help keep inflation in check. The drop is even more remarkable when you consider Hurricane Ike pummeled the gulf coast region and caused a major shutdown of drilling and refining operations. It wasn't that long ago when just the threat of a hurricane would cause oil prices to jump. Now, the psychology seems to have changed and investors are more worried about slowing demand, rather than falling supply, according to MarketWatch.

To say we live in interesting times would be stating the obvious. We have a war on terrorism; hurricanes; the political silly season; failing financial institutions; soaring, then plunging oil prices; a depressed real estate market; and a myriad of other issues. Yet through it all, we have to find a way to be resilient. Yes, the market is down and it hurts, but for those who are diversified, it's generally not catastrophic. We remain optimistic that we'll pull through our current problems and end up stronger down the road. As Americans, that's the way it's always been, and we expect that's the way it will always be.

| Returns through 9/12/08 | 1-Week | Y-T-D | 1-Year | 3-Year | 5-Year | 10-Year |
|-------------------------|--------|-------|--------|--------|--------|---------|
| Dow Jones Industrials   | 1.8    | -13.9 | -15.0  | 2.3    | 3.8    | 3.7     |
| NASDAQ Composite        | 0.2    | -14.7 | -13.1  | 1.2    | 4.0    | 3.1     |
| Standard & Poor's 500   | 0.8    | -14.8 | -15.7  | 0.3    | 4.2    | 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.

**IF THE WORLD IS FLAT**, does that mean we should allocate a higher percentage of our portfolios to foreign investments? With the economic rise of Brazil, Russia, India, China, and other foreign countries over the past few decades, the opportunities to invest overseas have multiplied dramatically. Along with that, the percentage of the world's stock market capitalization represented by the United States has shrunk. For example, in 1970, the U.S. stock market accounted for about 66% of the world's stock market capitalization. Currently, that figure is down to about 43%, according to a September 8 *Wall Street Journal* article titled, "Going Global: How Do You Get There from Here?"

This significant shift means investors who stick just to U.S. companies are bypassing more than 50% of the world's stock market opportunities. That's like going to your doctor and telling him less than half of your symptoms and hoping he'll be able to make the correct diagnosis. Let's assume for a moment that you agree that investing in foreign companies makes sense, then the logical question is, how much?

In a series of new asset allocation plans released this month by Citigroup, they recommend investors put 55% of their stock assets in foreign stocks, according to the *Journal* article. While that may seem high, it's roughly in line with the percentage of the world's stock market capitalization represented by non-U.S. stocks. Quoting from the *Journal*, investors who favor this type of weighting are trying to "match the world's stock-market weightings to get the best risk-adjusted returns over the long run."

Stepping outside the U.S. may have its advantages. For example, for the five years ending December 31, 2007, the Dow Jones Wilshire Emerging Markets index rose at an average annual rate of 46.5%, including reinvested dividends, according to the *Journal*. That compares quite favorably to the 12.8% return of the domestic Standard & Poor's 500 index.

But, before we get carried away, investing in foreign markets entails risks such as currency swings, different accounting standards, and potential government instability. Oh, and let's not forget that foreign markets can go down, too. Through the first eight months of this year, the Dow Jones Wilshire Emerging Markets index was down 22.7%, according to the *Journal*.

Ultimately, as you have more investment options to choose from, you may have more opportunities to find winning investments. While there may not be a specific percentage of foreign investments that will work for everybody, being a "worldly" investor may open the door to greater success when compared to just staying put in the U.S.

## Weekly Focus – Seven Years Ago

As we pass the seventh anniversary of the terrorist attacks, it's a good time to remember those who lost their lives, or were injured, and to thank those who are presently risking their lives to keep us safe. We may take for granted the relative safety that most of us enjoy, but it comes with a price. Let's be grateful for all those who are paying that price on our behalf.

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.
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