



THE ADVOCATE GROUP

A Bridge to Financial Clarity

Weekly Commentary September 29, 2008

The Markets

While the politicians fiddled, Wall Street and Main Street burned.

The financial markets eagerly awaited confirmation of a government bailout last week, but all they got by last Friday was partisan bickering and finger pointing. With no deal, traders pulled in their horns and the markets fell for the week.

It also didn't help that last week's economic news was mostly bleak. Here are a few of the highlights:

- The four-week average of first-time claims for unemployment insurance rose to 462,500 last week. That's the highest since November 2001, according to MarketWatch. On the positive side, some of the spike was caused by Hurricanes Gustav and Ike as opposed to economic weakness.
- Second quarter GDP was revised down to 2.8% growth from a preliminary 3.3% rate, according to the Commerce Department. Over the past 12 months, GDP grew 2.1%, which is below the 2.75% growth rate most economists say is the economy's long-run potential, according to MarketWatch.
- New home sales fell to a 17-year low in August, according to data from the Commerce Department. The August rate was also 34.5% below the sales number a year ago. These weak numbers are not too surprising since weakness in housing is at the root of our current financial problem.
- Orders for durable goods in August dropped a larger than expected 4.5% as demand declined in most major categories, according to data from the Commerce Department.

Now, for what we hope is some good news. Over the weekend, Washington lawmakers got serious and announced they had reached a bipartisan \$700 billion agreement to bailout the financial sector. The agreement may prevent a "worst-case scenario" from unfolding in our financial markets, but it probably won't forestall further economic weakness. As we've said before, it took us years to get into this mess and it could take us years to get out of it. In the meantime, we continue to work hard at preserving capital and searching for new opportunities.

Returns through 9/26/08	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	-2.2	-16.0	-19.8	2.2	3.7	3.2
NASDAQ Composite	-4.0	-17.7	-19.2	1.0	4.0	2.3

Standard & Poor's 500	-3.4	-17.4	-20.6	-0.1	4.0	1.5
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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.

THE CURRENT GLOBAL FINANCIAL MESS is a good reminder that it may pay to follow a few basic principles of good living. As a society, we're inundated with messages that encourage us to spend, spend, spend, and buy stuff that might make us feel good in the short term, but in the long term could leave us with a migraine. For some people, the lure of easy credit and living the high life was hard to resist and they ended up getting in over their heads. By forgetting basic personal finance and life principles, some of these folks are unfortunately paying a heavy price.

As we survey the landscape, there are plenty of people and organizations who can share the blame for the situation our country finds itself in. Greedy financial institutions, hedge funds, investment banks, mortgage brokers, politicians protecting their jobs, ratings agencies, and regulators are just a few in a long list of culprits. But, at the end of the day, laying blame on other people won't solve the problem or prevent the next one. Ultimately, we each have to be responsible for our own actions and do the best we can to make prudent decisions that protect our hard-earned assets. Here are a few basic principles that can benefit all of us:

- Live below your means. Consider saving at least 10% of your annual income. Before long, you'll have a nice cushion that will help soften the blow if the unexpected happens.
- Buy adequate insurance. There's no need to expose yourself to a major loss if you can insure the potential loss for a relatively small amount.
- Invest regularly. No one can predict whether the market will go up or down tomorrow, let alone next year. By investing regularly, you establish a discipline that may help smooth out some of the fluctuations.
- Don't stress out over things you can't control. We can't control if there will be a thunderstorm tomorrow any more than we can control whether or not the \$700 billion bailout package will be successful. What we can do though, is be proactive in preparing ourselves for whatever outcome may occur.
- Focus on what's most important in life. We're all given a certain amount of time on this earth and it's in our best interest to use that time wisely. Spending time with your family, your friends, and helping others may help you stay sane in a sometimes crazy world.

Weekly Focus – From \$12,000 to \$30 Million in 68 Years

In 1940, surrealist artist Enrico Donati purchased a Picasso painting for a reported \$12,000. Earlier this year, Donati died at age 99 and his estate is putting the painting up for auction later this year. Sotheby's estimates the painting will fetch \$30 million. What do you think is the average annual rate of return if the painting, purchased for \$12,000 in 1940, sells for \$30 million later this year? Would you believe about 12.2%? That's a good example of the power of compounding!

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 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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