THE ADVOCATE GROUP

A Bridge to Financial Clarity

Weekly Commentary
November 17, 2008

The Markets

On second thought, maybe that wasn't such a good idea.

Treasury Secretary Hank Paulson did an about face last week as he told Congress that the administration was backing away from the original plan of using the $700 billion bailout fund to purchase toxic mortgages. Instead, he said they would like to "consider using (the) remaining bailout funds on a second round of purchases of preferred shares in both banks and non-bank institutions that would match privately raised funds," according to CNBC. Wall Street panned the flip-flop as the Dow Jones Industrial Average dropped 411 points on the day of Paulson's change of heart.

To his credit, Paulson didn't stubbornly stick to a plan that may have been less than optimal as new information became available. Like a good trader, he realized that the winds had shifted so he decided to shift, too. Wall Street took it hard because the swift change just reinforced how quickly things are changing in the economy. Wall Street doesn't like uncertainty and this change was another example of the unpredictability of our current environment.

Glum retail sales, weak corporate earnings reports, and another jump in initial jobless claims added to the negative tone in the markets last week, according to MarketWatch. Last Thursday was the lone bright spot. After the Dow Jones Industrial Average dropped below 8,000, it staged a dramatic comeback and finished the day up a stellar 6.7%. This 11.5% intraday swing was the third biggest one-day swing in the past 46 years, according to Barron's. Although the market finished up for the day, this stomach-turning volatility kept investors nervous and the market sold-off again the next day.

Like Paulson, we're trying to be flexible and responsive to this ever-changing market environment.

Returns through 11/14/08	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrial Average	-5.0	-35.9	-35.5	-7.4	-2.8	-0.6
NASDAQ Composite	-7.9	-42.8	-42.5	-11.7	-4.7	-2.0
Standard & Poor's 500	-6.2	-40.5	-40.1	-10.9	-3.6	-2.6

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.

IN 1958, A SEISMIC SHIFT OCCURRED in the relationship between dividend yields and bond yields. Fifty years later, that shift is close to reversing. If it does, what does that mean for investors?

Prior to 1958, the dividend yield on common stocks was always higher than the yield on long-term government bonds, according to *Stocks for the Long Run* by Jeremy Siegel. As a refresher, the dividend yield is simply the annual dividend divided by the price of a stock. For example, if a stock pays a $2 annual dividend and the price of the stock is $80, then the dividend yield is 2.5%. Fifty

years ago, investors felt it was normal for stocks to yield more than bonds because stocks were riskier than bonds. Investors felt they had to be compensated for this risk by receiving a higher yield.

As 1958 unfolded, the stock market soared more than 30% and that dropped the dividend yield to below the yield on long-term government bonds and it's been that way ever since, according to Siegel. Over the ensuing 50 years that stocks have yielded less than bonds, investors have gradually concluded that even though stocks may be riskier than bonds, the lower yield is justified because stocks may offer more growth opportunity. In other words, stocks offer the chance for a capital gain and a dividend, whereas long-term bonds bought at par and held to maturity only offer an interest payment.

Fast forward to last Friday. According to *The Wall Street Journal*, the dividend yield on the S&P 500 index was 3.5%, while the yield on 10-year government bonds was 3.75%. As you can see, we're getting very close to parity after a 50-year hiatus.

In order for the dividend yield to surpass the bond yield, we would need to see stock prices continue to drop, bond prices continue to rise (remember: bond yields move opposite of bond prices), or some combination of the two. Here are some thoughts on each of those scenarios:

First, if stock prices continue to drop, the relative attractiveness of stocks may improve. With a high dividend yield, investors can take some comfort in knowing they'll receive a payment for holding stocks, while still offering the chance for capital appreciation down the road.

Second, if bond prices rise, which leads to lower bond yields, then the economy may get some extra ammunition to spark economic growth. Lower interest rates may lead to more business investment, which could lead to higher corporate profits and, hopefully, higher stock prices.

Third, if both scenarios happen, it may set us up for a big recovery at some point in the future.

If the dividend yields end up surpassing bond yields, this reversal of a long-term trend may be a major signal that something momentous is about to happen. This "something momentous" could be a change in investor psychology that keeps stock prices low for a long period of time or it could be a sign that we're nearing a trough in stock prices and that they're poised to head up.

Regardless of what happens and what it may signal, we keep working diligently on your behalf to help you meet your long-term goals and objectives.

Weekly Focus – Think About It

"We don't stop playing because we grow old; we grow old because we stop playing."
--George Bernard Shaw

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.

Securities offered through LPL Financial, Member FINRA/SIPC.

* 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.

* To unsubscribe from the Weekly Commentary, please reply to this e-mail with “unsubscribe” in the subject line.