

Weekly Commentary

March 7, 2011

The Markets

It's a heavyweight battle between high oil prices in one corner and strong economic numbers in the other. Which one will win?

Oil still lubricates a significant part of the world economic machine and, at more than \$100 a barrel, it could cause the machine to seize up and inflation to rise. Unrest in the Middle East, speculative fervor, and the economic recovery are contributing to oil's recent strength, according to MarketWatch.

While high oil prices could hurt the economy, we're seeing some strong economic numbers that may suggest the economy is finally getting some traction. Here are a few examples from last week:

- U.S. factory orders in January grew 3.1%, the biggest gain since September 2006, according to MarketWatch.
- Nonfarm payroll employment increased by 192,000 in February and the unemployment rate dropped to 8.9% -- the lowest rate in nearly two years, according to Bloomberg.
- Indexes of manufacturing output hit their highest levels in seven years in the U.S. and more than ten years in Europe, according to *The Wall Street Journal*.
- Signaling "percolating demand for business aircraft," Berkshire Hathaway's NetJets subsidiary placed a firm order for 50 business jets, plus options for an additional 70 aircraft, according to *The Wall Street Journal*.

The interesting thing about rising oil prices is that the more they rise, the more they sow the seeds of their ultimate destruction. If prices rose out of control, it would likely cause the economy to slow down, the government to release inventory from the Strategic Petroleum Reserve, oil producers to ramp up exploration efforts, and other companies to speed up the development of alternative energy sources. All of these things would conspire to help *lower* oil prices.

For now, don't be surprised to see volatile swings in the market as the momentum switches between high oil prices and strong economic numbers.

Data as of 3/4/11	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.1%	5.1%	16.0%	-0.1%	0.7%	0.6%
DJ Global ex US (Foreign Stocks)	1.6	3.6	17.3	-2.5	2.1	4.9
10-year Treasury Note (Yield Only)	3.5	N/A	3.6	3.6	4.7	5.0
Gold (per ounce)	1.7	1.2	25.8	13.2	20.4	18.4
DJ-UBS Commodity Index	2.4	4.2	26.4	-7.5	0.8	4.2
DJ Equity All REIT TR Index	-1.2	4.6	32.3	3.8	1.9	11.3

Notes: S&P 500, DJ Global ex US, Gold, DJ-UBS Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT TR Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable or not available.

WHAT ARE THE KEY CHARACTER TRAITS AND BEHAVIORS that lead to accumulating financial wealth? Here are a few of them according to various studies reported in a January 2011 article from Yahoo! Finance:

- A propensity to plan. People who answered yes to the question, “Before going on a vacation, I spend a great deal of time examining where I would most like to go and what I would like to do,” tended to accumulate more wealth than people who didn't answer yes.
- No fear of numbers. People who answered yes to the question, “I am highly confident in my mathematical skills,” also tended to accumulate more wealth.
- Have some level of financial literacy. The article pointed to a 2007 study that said, “People who cannot correctly calculate interest rates given a stream of payments tend to borrow more and accumulate less wealth.” It’s not math skills that are important here, rather, it’s “making the connection between math and setting up retirement savings plans.”
- Non-smokers. This was an eye-opener. One study discovered that, “A typical non-smoker's net worth is roughly 50% higher than that of light smokers and about twice the level of that of heavy smokers.”
- Feel a sense of power. A study showed that, “People who feel a sense of powerlessness tend to splurge on high-status luxuries, a sure-fire detour from long-term wealth.” So, feeling powerful may enable you to keep your money invested instead of using it to splurge on high-status luxury items.
- Are conscientious and emotionally stable. Out of the five families of personality traits, those two were most closely linked with economic success, according to research by Angela Lee Duckworth of the University of Pennsylvania and David Weir of the University of Michigan.

How many of these character traits and behaviors describe you?

Weekly Focus – Today’s Oil Got Its Start Before the Dinosaurs

“Oil was formed from the remains of animals and plants (diatoms) that lived millions of years ago in a marine (water) environment before the dinosaurs. Over millions of years, the remains of these animals and plants were covered by layers of sand and silt. Heat and pressure from these layers helped the remains turn into what we today call crude oil. The word ‘petroleum’ means ‘rock oil’ or ‘oil from the earth.’” --*U.S. Energy Information Administration*

Best regards,

Richard A. McGrath

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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* This newsletter was prepared by Peak Advisor Alliance.

* 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 DJ Global ex US is an unmanaged group of non-U.S. securities designed to reflect the performance of the global equity securities that have readily available prices.

* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

* Gold represents the London afternoon gold price fix as reported by the London Bullion Market Association.

* The DJ Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

* The DJ Equity All REIT TR Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

* 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.

* Past performance does not guarantee future results.

* You cannot invest directly in an index.

* Consult your financial professional before making any investment decision.

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