Weekly Commentary
March 14, 2011

The Markets

"It takes a licking and keeps on ticking" was a memorable jingle for Timex watches and it seems like an apt description of the U.S. financial markets, too.

Despite absorbing numerous "licks" over the past couple years, the financial markets have been remarkably resilient. Here are a few of the blows they've been able to withstand:

- Rebellion in the Middle East and North Africa
- Oil prices above $100 per barrel
- Woeful housing market
- Banks sitting on billions in underperforming loans
- European sovereign debt mess
- Projected U.S. budget deficit of $1.5 trillion
- Unemployment rate at 8.9%

On top of all those concerns, the devastating Japanese earthquake will reverberate emotionally and economically for a long time. And, just like an earthquake, you never quite know what will trigger a selloff in the financial markets. The headwinds mentioned above have not prevented the S&P 500 index from nearly doubling off its March 9, 2009 closing low, according to Reuters. However, at some point, it's possible that investors will decide that these headwinds *do* matter and that could trigger a correction in the markets.

For now, the financial markets keep on ticking and we keep on monitoring and managing your investments as best we can.

Data as of 3/11/11	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-1.3%	3.7%	13.4%	-0.4%	0.3%	1.0%
DJ Global ex US (Foreign Stocks)	-3.2	0.2	11.0	-3.2	1.5	4.8
10-year Treasury Note (Yield Only)	3.4	N/A	3.7	3.6	4.8	4.9
Gold (per ounce)	-1.1	0.1	27.9	13.3	21.0	17.9
DJ-UBS Commodity Index	-3.5	0.6	23.1	-8.9	0.3	4.0
DJ Equity All REIT TR Index	0.2	4.8	25.6	3.1	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.

HUMANS ARE NOT RATIONAL DECISION MAKERS and that's one reason why financial markets don't always behave the way we'd expect them to. For example, you could put together a well-researched, well-reasoned analysis of why "xyz" should happen in the financial markets. Yet, frequently, "xyz" doesn't happen as expected. Why? One reason is that the financial markets are full of "uncertainty" and, as Jonah Lehrer wrote in a recent *Wall Street Journal* piece, "the mere whiff of uncertainty can dramatically skew our decision-making,” and turn us into non-rational decision makers.

Lehrer points to a 2006 study by economists Uri Gneezy, John List, and George Wu that asked people how much they would pay for various items. In the first test, people were asked how much they would pay for a $50 and $100 Barnes & Noble gift certificate. The study showed people would pay, on average, $26.10 for the $50 certificate and $45 for the $100 one.

Things got interesting, though, when the economists changed the offer and injected some “uncertainty” into it. Here’s how Lehrer described it:

> Everything changed, however, when the economists introduced a little uncertainty into the marketplace. Instead of bidding on guaranteed gift certificates, the subjects were offered lotteries in which they were sure to win one of the options, but didn't know which one. A sample lottery, for instance, gave the subjects a 50% chance of winning the $100 Barnes & Noble gift certificate and a 50% chance of winning the $50 one. If people were rational agents, they should have offered to pay between $26.10 and $45 for a chance to win. Instead, the subjects were willing to pay only $16. This is the curse of uncertainty. It makes every possibility seem less appealing.

The example above shows how even a little uncertainty in a simple gift certificate situation can cause humans to make non-optimal decisions. Carry that same behavior over to the complex and uncertain nature of the financial markets and you can understand why the markets don’t always perform as one may expect.

Unless human behavior changes, we won’t suddenly turn into rational human beings. Consequently, we should expect financial markets to occasionally confound the best laid plans.

Weekly Focus – Thinking About Our Friends in Japan

"Frightening beyond belief. I have no words." --*Japanese earthquake survivor*

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.

* 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.

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