

# Weekly Commentary

## August 23, 2010

### The Markets

“We don’t think the world has ended.”

With so much doom and gloom being published these days, it’s refreshing to hear a respected leader of a global, blue-chip company make a positive statement. Doug Oberhelman, the chief executive officer of Caterpillar, met with analysts last week and painted a rather bright picture of the world economy, including the quote above.

Oberhelman went on to say that Caterpillar does not expect a double-dip recession because the world’s central bankers are staying on top of the situation and the global economy is improving -- especially in the developing world. As the world’s largest maker of construction and mining equipment, Caterpillar is considered a good indicator of worldwide economic health, according to Associated Press.

One question that many analysts and economists are struggling with is, “Can the world recover without the United States?” As the world’s largest economy, there’s an old saying that when our economy sneezes, the world catches a cold. Well, we’ve certainly done more than sneeze in the past three years. Optimists say that yes, the U.S. is still important in the world economy, but other countries, most notably China, India, and Brazil, can still prosper even if the U.S. is down for a few counts. They call this “decoupling.”

Underscoring this idea of decoupling is the fact that China just passed Japan as the world’s second largest economy, according to *The New York Times*. Forecasters are predicting that China will surpass the U.S. as the largest economy by as early as 2030.

Caterpillar, for one, thinks the world will continue recovering even if the U.S. is a bit weak. And the stunning growth of China makes that idea plausible.

Data as of 8/20/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.7%	-3.9%	4.4%	-9.5%	-2.6%	-3.3%
DJ Global ex US (Foreign Stocks)	-0.5	-5.5	5.0	-8.5	1.2	0.9
10-year Treasury Note (Yield Only)	2.6	N/A	3.4	4.6	4.2	5.8
Gold (per ounce)	0.8	10.8	30.1	22.9	22.7	16.1
DJ-UBS Commodity Index	-1.0	-5.6	4.3	-6.7	-4.4	2.2
DJ Equity All REIT TR Index	-0.5	11.9	35.2	-6.0	1.3	10.1

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.

**YOU MAY NOT HAVE HEARD OF STANLEY DRUCKENMILLER**, but he will be remembered as one of the most successful investors (speculators?) of all time. Since 1986,

Druckenmiller has generated average annual returns of 30%, according to an August 18 article by *Bloomberg*. Incredibly, in 30 years of managing money, he's never had a losing year, according to *Bloomberg*.

Perhaps his most famous moment came in 1992 when he was working for famed investor George Soros. Together, they made a multi-billion dollar bet that the Bank of England would be forced to devalue the pound. Sure enough, that occurred and the duo made a \$1 billion profit for their investors -- *in a single day* -- according to *Forbes*. Over the years, Druckenmiller did well personally, too, as *Forbes* magazine estimated his net worth at \$3.5 billion in 2009.

When it comes to making money, Druckenmiller said, "It is not whether you are right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong."

Last week, Druckenmiller announced that he was retiring from managing client money.

The fact that he was retiring was not unusual, rather, as it was the reasons he gave for the retirement. According to *The New York Times*, Druckenmiller said, "I have had to recognize that competing in the markets over such a long timeframe imposes heavy personal costs." He went on to say, "While the joy of winning for clients is immense, for me the disappointment of each interim drawdown over the years has taken a cumulative toll that I cannot continue to sustain."

Two days after Druckenmiller announced his retirement, another famous investor, Paolo Pellegrini, said he was getting out of the business of managing other people's money. Pellegrini is famous for betting against risky mortgages and helping his former boss, John Paulson, score a \$15 billion profit a few years back, according to *The Wall Street Journal*. This coup was chronicled in the bestselling book, *The Greatest Trade Ever*, by Gregory Zuckerman.

Why should you care that these two famous investors are exiting the business of managing other people's money? It's important because of the possible signal that it sends.

Back in August 1979, *BusinessWeek* magazine ran a cover story titled, "The Death of Equities." It concluded by saying, "The old attitude of buying solid stocks as a cornerstone for one's life savings and retirement has simply disappeared... The stock market is just not where the action's at." Exactly three years later -- in August 1982 -- the stock market took off on an 18-year bull run that was one of the greatest in history. That story, in hindsight, served as an early *inverse* indicator of the future direction of the market.

Could the disappearance of Druckenmiller and Pellegrini be a signal similar to the infamous *BusinessWeek* story?

A stretch, perhaps, and there's no way of knowing what the market will do until after it happens. But it's interesting to consider what non-traditional clues like this might mean. Food for thought.

**Weekly Focus – Think About It**

“If investing is entertaining, if you’re having fun, you’re probably not making any money. Good investing is boring.” --George Soros

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.

\* 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.

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