

Weekly Commentary

October 25, 2010

The Markets

Would you like to buy a 30-year U.S. Treasury bond that yields 14% and matures in 30 years? Believe it or not, that's what the government was offering you back in November 1981, according to Morningstar.

It didn't last, though, because that marked the end of a 40-year *bear* market in bonds that started in 1941. The ending of that bear ushered in a bull market in bonds that some say exists to this day -- some 29 years later.

Since 1941, we've essentially made a round trip in interest rates. The yield on the 10-year note went from 2.0% in 1941 to 14.0% in November 1981 (the bear market) and back down to 2.1% in December 2008 (the bull market), according to Federal Reserve data. As of last week, the yield had risen to 2.6%. If we've seen the low in the yield, then December of 2008 may have been the beginning of a new bear market in bonds.

Notice how the bond market has traveled in a very long cycle. It was in a 40-year bear market and then flipped into a 29-year bull market that may or may not be over yet. Not coincidentally, that 29-year bull market in bonds overlapped significantly with a major bull market in stocks.

So, in addition to the day-to-day noise and the year-to-year fluctuations, investments, such as bonds and stocks, tend to bob up and down within a sweeping arc of bull or bear markets. Accurately knowing where you stand within one of these sweeping arcs is one key to successful long-term investing.

Data as of 10/22/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.6%	6.1%	9.6%	-7.7%	-0.3%	-1.6%
DJ Global ex US (Foreign Stocks)	-0.7	6.7	6.4	-8.2	3.9	3.2
10-year Treasury Note (Yield Only)	2.6	N/A	3.4	4.4	4.5	5.6
Gold (per ounce)	-3.3	19.8	25.6	20.7	23.2	17.2
DJ-UBS Commodity Index	-0.6	4.1	5.0	-6.5	-3.1	3.0
DJ Equity All REIT TR Index	2.0	26.5	38.3	-3.3	4.0	11.7

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.

WHEN IT COMES TO INVESTING, why do you behave the way you do? A study released last month by the Institute for Financial Research in Sweden tried to identify what factors affect the way an individual invests and approaches risk. Is it something pre-programmed in our genes ("nature") or does the environment ("nurture") or individual characteristics, such as age, gender, education, and wealth play the biggest role?

It turns out that our genetic makeup (“nature”) accounts for about one-third of our investing behavior. This conclusion was reached after reviewing portfolios of more than 37,000 twins.

The study found that the environment (“nurture”) shared by the twins as they were growing up did have an important effect on their investment behavior, too. However, this effect disappeared over time as the twins grew up and had their own experiences. Individual characteristics, such as age, gender, education, and wealth played a role, too, but they were less important than the genetic role.

To some extent, then, we can say that great investors are born, not made!

Weekly Focus – Think About It

“Time is your friend; impulse is your enemy.” --*John Bogle*

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.

* Past performance does not guarantee future results.

* You cannot invest directly in an index.

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