# Weekly Commentary
# August 2, 2010

## The Markets

Consumers are becoming more frugal and that may turn out to be a good thing.

One cause of The Great Recession was the cumulative effect of consumers spending more money than they could afford. Eventually, they got tapped out, business slowed down, and massive layoffs ensued. Of course, simple math says you cannot indefinitely spend what you do not have and, by 2008, the math caught up with many Americans.

Last week, the Commerce Department said the personal savings rate (saving as a percentage of disposable personal income) rose to 6.2% in the second quarter. That's up from 5.5% in the first quarter. In the heyday of conspicuous consumption back in 2007, the savings rate was a paltry 2.1%, according to CNNMoney.com.

Higher savings is a double-edged sword. On the positive side, it means consumers are acting more responsibly and, by beefing up savings, they are setting the stage for future sustainable economic growth. The downside to this thriftiness is slower economic growth in the short term.

It's a fine balance between saving enough to get our personal balance sheet back in order, but not too much that the economy takes years to regain its footing. Remember, consumer spending still accounts for about 70% of economic activity, according to *The Wall Street Journal.* The trick is we still have to shop -- *but just not till we drop!*

| Data as of 7/30/10 | 1-Week | Y-T-D | 1-Year | 3-Year | 5-Year | 10-Year |
|---|---|---|---|---|---|---|
| Standard & Poor's 500 (Domestic Stocks) | -0.1% | -1.2% | 11.6% | -9.2% | -2.3% | -2.6% |
| DJ Global ex US (Foreign Stocks) | 1.3 | -3.6 | 9.8 | -9.9 | 2.1 | 1.3 |
| 10-year Treasury Note (Yield Only) | 2.9 | N/A | 3.6 | 4.8 | 4.3 | 6.0 |
| Gold (per ounce) | -1.8 | 5.9 | 25.4 | 20.9 | 22.1 | 15.5 |
| DJ-UBS Commodity Index | 3.3 | -3.5 | 8.1 | -7.8 | -3.6 | 3.1 |
| DJ Equity All REIT TR Index | 1.8 | 15.5 | 52.4 | -3.4 | 0.8 | 10.3 |

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.

**DOUBLE DIP IS NOT JUST FOR ICE CREAM CONES.** Over the past few months, concern has grown that the U.S. economy could experience a double-dip recession. Drooping bond yields, which may suggest slower economic growth, coupled with some soft economic data and weak consumer sentiment, have raised a red flag. However, from an international perspective, the International Monetary Fund has raised its 2010 world economic growth projection five times since April 2009 and it now stands at a forecasted rate of 4.6% -- which is rather healthy and certainly not double-dip territory.

Although the likelihood of a double-dip recession still seems small, a July 27 *Financial Times* article outlined four risks that could possibly derail the recovery:

1. A decline in business and consumer confidence.
2. An end to temporary boost to post-recession economies, e.g., economic growth emanating from inventory re-stocking.
3. A new crisis or "black swan" event that throws the world for a loop.
4. Overly austere government budgets that tighten too much too soon and snuff out the recovery before it gets a chance to become self-sustaining.

These risks are reasonable and bear watching. However, let's face it. No matter how well the world is humming, we (advisors) can always find something to worry about. But, that's our job. It's not that we're pessimists. It just comes with the territory. We worry about things -- large and small -- in an effort to be proactive and to try and help you stay ahead of the curve.

## Weekly Focus – Think About It

Here's a list of the happiest countries in the world, according to a recently released Gallup Poll based on data collected between 2005 and 2009. Survey participants were asked to rate their overall satisfaction with their lives and how they had felt the previous day (to gauge their happiness in daily activities).

| Rating | Country |
|---|---|
| 1 | Denmark |
| 2 | Finland |
| 3 | Norway |
| 4 | Sweden |
| 5 | Netherlands |
| 14 | United States |
| 17 | United Kingdom |
| 44 | France |
| 81 | Japan |
| 125 | China |

Does this list surprise you?

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.

* 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.