



Weekly Commentary August 15, 2011

The Markets

If there was ever a week for investors to be on vacation and “off the grid,” last week was it. By being unplugged, you would have missed the following wild ride:

- Monday: The S&P 500 index plunges 6.7 percent partially in reaction to the U.S. losing its triple-A credit rating. By the end of the day, about 99 stocks out of every 100 close lower - - the biggest rout since May 13, 1940 when Germany was beginning its invasion of France, according to CNBC.
- Tuesday: The index soars 4.7 percent as the Federal Reserve announces it will leave its benchmark interest rate at a record low for at least two more years.
- Wednesday: The index tumbles 4.4 percent as concern about the health of the European banking sector and France’s triple-A credit rating sends investors to the exits.
- Thursday: The index skyrockets 4.6 percent as calmer heads prevail and investors swoop in to buy perceived bargains.
- Friday: The index closes higher in a relatively uneventful day.
- For the week, the Dow Jones Industrial Average rose or fell at least 400 points on four consecutive days -- the first time that’s ever happened.

Sources: *The Wall Street Journal*, Bloomberg, CNBC

Yet, remarkably, after all the volatility, the S&P 500 index lost only 1.7 percent for the week.

As mentioned above, the U.S. lost its coveted triple-A credit rating from Standard & Poor’s on August 5. However, in the irony of all ironies, rather than seeing U.S. interest rates rise on this bad news, rates actually *dropped dramatically*. The interest rate on the benchmark 10-year Treasury dropped from 2.56 percent on August 5 to 2.24 percent last Friday, according to data from Yahoo! Finance. It turns out that the stock market volatility had some investors fleeing to the perceived “safety” of U.S. Treasuries.

But wait, there’s more. In another irony, the value of the much maligned U.S. dollar was virtually unchanged last week, according to MarketWatch. Despite the downgrade of our credit rating, people still felt our currency was worth holding relative to other currencies such as the euro.

While the major headlines were scary, some good news occurred last week, too. The Commerce Department said retail sales rose a solid 0.5 percent in July and first-time unemployment claims dropped below 400,000 in the week ended August 6. That was the lowest level for unemployment claims since early April, according to MarketWatch.

With markets dropping and volatility rising, some pundits are now comparing the current market environment to the 2008-2009 financial crisis period. And, while there are some similarities, *The Wall Street Journal* pointed out a glaring difference in its August 13 edition.



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The panic in 2008 represented a crisis in markets. What's happening now seems to be a crisis in government. In 2008, the world's richest countries embarked on a series of unprecedented interventions to stop financial markets from seizing. Today, the tables are reversed: Financial markets have lost confidence in politicians' ability to master their problems. In 2008, countries united in response. This year has been marked by tensions and misunderstanding, including those between the U.S. and Europe over the continent's response to its debt crisis.

This “crisis in government” has led to a “crisis in confidence” in consumers. According to the Thomson Reuters/University of Michigan preliminary index of consumer sentiment, U.S. consumer confidence dropped in early August to the lowest level since Jimmy Carter was president in May 1980. This extremely low confidence level may be a headwind for the economy.

At times like this, it is very important to maintain perspective. While the markets are swinging wildly, the S&P 500 index still closed last week more than 9 percent *higher* than a year earlier, as shown in the box below.

As investment managers and investors, we can’t let short-term gyrations derail us from our long-term objectives.

Data as of 8/12/11	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-1.7%	-6.3%	9.2%	-3.0%	-1.5%	-0.1%
DJ Global ex US (Foreign Stocks)	-1.7	-10.3	4.5	-3.9	-1.3	4.6
10-year Treasury Note (Yield Only)	2.2	N/A	2.7	3.9	5.0	5.0
Gold (per ounce)	4.7	23.1	43.1	28.5	22.7	20.2
DJ-UBS Commodity Index	0.6	-3.3	18.3	-5.7	-1.8	4.2
DJ Equity All REIT TR Index	2.0	-0.4	12.9	-0.4	0.1	9.5

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.

Weekly Focus – Think About It

“Courage is fear holding on a minute longer.” --George S. Patton, U.S. Army General

Best regards,

Jeff Bingham

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.



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- * The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. Indices are unmanaged and cannot be invested into directly.
- * The Dow Jones Industrial Average is an unmanaged group of 30 leading companies.
- * 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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