WEEKLY MARKET COMMENTARY **October 8th, 2012**

The Markets

Encouraging, but still lackluster.

That's how one analyst described the September jobs report released last Friday by the Labor Department. On the encouraging side, the unemployment rate dropped to its lowest level since January 2009 and the previous two month's reports were revised upward to show 86,000 more jobs were created than originally reported. On the lackluster side, "At the recent pace of job growth, it would take about 28 months to recoup all the jobs lost during the last recession," and "The U.S. is still short about 4.1 million jobs compared to its pre-recession peak," according to MarketWatch.

This middle of the road jobs report continues the tug-of-war trend we've seen in the economy. Neither the recessionary forces nor the expansionary forces in the economy can gain an edge. Like a chess match that ends in a draw, the opposing economic forces seem to just about neutralize each other and we end up with modest growth that doesn't please anybody.

So, what has to happen for the economy to shake off its lethargy and get back to an energizing growth level? Here's a top six wish list:

1) Solve the upcoming fiscal cliff situation.
2) Solve the European sovereign debt situation.
3) Reduce the stubbornly high long-term joblessness rate and the alarmingly high youth joblessness rate.
4) Complete the de-leveraging process for certain sectors of the economy, including the banking and household sectors.
5) Complete a smooth transition of leadership in China and light a fire under its economy.
6) Replace the highly partisan atmosphere in Washington with constructive collaboration.

Source: The Guardian

What are the odds of resolving some of these issues? Well, if you believe the stock market, the odds look reasonable as the Dow Jones Industrial Average continues to hover near a five-year high. Going forward, we need to turn the "hope of solving" into the "reality of solving" to keep Wall Street's optimism from turning to pessimism.

Data as of 10/5/12	**1-Week**	**Y-T-D**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
Standard & Poor's 500 (Domestic Stocks)	1.4%	16.2%	27.7%	12.0%	-1.3%	6.4%
DJ Global ex US (Foreign Stocks)	1.8	9.8	16.3	2.4	-6.4	8.2
10-year Treasury Note (Yield Only)	1.7	N/A	1.9	3.2	4.6	3.6
Gold (per ounce)	0.5	13.3	10.3	21.1	19.3	18.7
DJ-UBS Commodity Index	-0.5	5.1	5.3	5.6	-3.4	3.6
DJ Equity All REIT TR Index	0.4	16.4	36.1	21.6	1.5	12.2

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.

IS THE U.S. “TURNING JAPANESE?” Over the years, analysts have compared the “lost decade” in the U.S. stock market to the ongoing “lost two decades” in Japan’s stock market and wondered if we are heading down the same path. With a wink to the 1980 New Wave hit from The Vapors, let’s take a look.

Japan

On December 29, 1989, Japan’s Nikkei 225 stock average, the broad measure of the Japan’s stock market, peaked at 38,916. Five years later, it closed at 19,753, representing a loss of 49 percent. But, it didn’t stop there.

As of last week, after more than 22 years since the 1989 peak, the Nikkei 225 is still down. In fact, it closed at 8,863 – *a stunning loss of 77 percent*.

Despite this dramatic decline and the tremendous indebtedness of the country, Japan’s economy and society have not imploded. Japan is still the third largest economy in the world, unemployment is low, and the society is civil.

United States

Our stock market, as measured by the S&P 500 index, peaked on October 9, 2007 at 1,565. That peak was followed by a more than 50 percent decline. However, unlike Japan, the U.S. market bounced back strongly and, as of last week, the S&P 500 index closed at 1,461, representing a decline of about 7 percent over the past five years.

Now, some people say we should go back to the March 24, 2000 peak in the S&P 500 index of 1,527 and consider that the starting point for a lost decade. Fair enough. Using that date, the U.S. stock market is down about 4 percent over the past 12½ years, excluding reinvested dividends.

Despite this weak stock market performance and the growing indebtedness of our country, we still have the world’s largest economy, our society is civil (mostly), and, while unemployment is lackluster, it’s not disastrous.

Comparison

Five years removed from the peak in each market, Japan was down 49 percent, while the U.S. market was down just 7 percent.

From the peak of Japan's stock market through last week – a stretch of more than 22 years – its stock market average is down 77 percent. In the U.S., using our March 24, 2000 peak, we're down only about 4 percent over the intervening 12½ year period.

So, looking strictly at the numbers, we have not "Turned Japanese." While reasonable people can argue about our government's policies and the Federal Reserve's actions, we can take some comfort in knowing that our economy and stock market, while lackluster, are still persevering.

Weekly Focus – Think About It…

"The measure of success is not whether you have a tough problem to deal with, but whether it is the same problem you had last year."

--*John Foster Dulles, former Secretary of State*

Financial Factoid: The USA's economy is worth $15.6 trillion. The 17-nations that use the euro as their common currency have a collective economy worth $13.1 trillion (source: Commerce Department, Eurostat).

Irish Wit & Wisdom: When you stop drinking, you have to deal with this marvelous personality that started you drinking in the first place.

-- Jimmy Breslin

Have a great week!

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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.
* 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
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