EPIC CAPITAL WEALTH MANAGEMENT

WEEKLY MARKET COMMENTARY **August 6th, 2012**

The Markets

Despite disappointment that central banks in the U.S. and Europe offered no new stimulus programs last week, the U.S. stock market rose for the fourth straight week – thanks to one piece of government news, according to Bloomberg.

This particular piece of news is released on the first Friday of each month and investors eagerly await its arrival as it has the potential to move markets. In fact, this news is so sensitive that news reporters are locked up in the Frances Perkins building in Washington, D.C. for 30 minutes prior to its release with absolutely no contact with the outside world. The reporters have 30 minutes to review the report, ask questions, write their story, and then precisely at 8:30 a.m., the government opens the communication gate and the news hits the world.

And, so, last Friday morning, the government released its *Employment Situation Report*. Within seconds, it was clear that the increase in the number of new nonfarm payroll jobs created in July was much higher than expected and the stock market unleashed a powerful rally, according to MarketWatch. Since employment leads to economic activity, investors pour over this report for clues to the direction of the economy.

Now, here's where it gets interesting. The data was stronger than expected, but it wasn't strong enough to prevent the Federal Reserve from adding more monetary stimulus later this year, according to some economists as reported by MarketWatch. In other words, some folks interpreted this as meaning we could have modest economic growth *and* more monetary stimulus. That's like a double shot of espresso for the markets.

This is great, right? Unfortunately, it's not that simple. One month of good employment data does not make a trend and additional stimulus from the Fed is not guaranteed. Even if additional stimulus comes, it could backfire if the market perceives it as too little, too much, or not the right kind. In the end, we're still left with the hard work of analyzing the economy, the investment opportunities, and doing the best job we can to help you navigate this uncertain environment.

Data as of 8/3/12	**1-Week**	**Y-T-D**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
Standard & Poor's 500 (Domestic Stocks)	0.4%	10.6%	10.4%	11.5%	-0.6%	5.2%
DJ Global ex US (Foreign Stocks)	1.1	2.5	-11.8	1.3	-6.3	6.4
10-year Treasury Note (Yield Only)	1.6	N/A	2.6	3.6	4.7	4.2
Gold (per ounce)	-1.0	1.7	-4.0	18.6	19.0	17.9
DJ-UBS Commodity Index	-0.4	1.6	-11.7	2.9	-3.4	4.0
DJ Equity All REIT TR Index	0.9	18.2	20.8	28.2	5.0	11.8

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 THERE A PARTICULAR 24-HOUR PERIOD IN THE STOCK MARKET that is more important to future stock market returns than any other 24-hour period? Since we asked the question, you might have guessed that the answer is yes.

For many years, the Federal Reserve's (Fed) monetary policy-making body, called the Federal Open Market Committee (FOMC), has convened at pre-scheduled meetings eight times per year. During these meetings, "The Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth," according to the Fed's website. And, since 1994, the policy decisions from these meetings have been announced to the public at known times.

Two months ago, the Federal Reserve Bank of New York released a study which contained a startling conclusion. The researchers discovered that, "a staggering 80 percent of the annual U.S. equity premium since 1994 was earned in the 24 hours before FOMC announcements." Further, if you extend the period to three days, i.e., from the day before the announcement to the day after the announcement, the study shows that effectively 100 percent of the return in the S&P 500 index since 1994 has come from this 3-day window encapsulating the FOMC announcement. And, to put it in even more perspective, Yahoo! Finance said, "This pre-FOMC drift has pumped the S&P 500 more than 50 percent higher than it would be without the gains made in the 24-hour period before Fed statements."

Hmm.

So, how does the Fed explain this anomaly? They end their research paper by saying, "As of this paper's writing, the pre-FOMC announcement drift is a puzzle."

Now that this anomaly is known, is there a way to profit from it? Probably not. For one thing, the frequent trading required to capture these gains and then move to cash until the next meeting would be expensive and tax inefficient. And, second, now that the strategy is known, it will likely disappear as investors try to "game" it.

Well, at least we know our tax dollars are hard at work paying researchers to come up with interesting market studies!

Weekly Focus – Think About It…

Adversity, if you allow it to, will fortify you and make you the best you can be.

--Kerri Walsh, Olympic Gold Medal Champion

Financial Factoid: 1% of the US population accounts for 21.8% of all health care expenditures. 5% of the population accounts for 49.5% of all health care expenditures. 15% of the population accounts for no health care expenditures (source: National Institute for Health Care Management).

Irish Wit & Wisdom: The difference between reality and fiction? Fiction has to make sense.

-- Tom Clancy, SSN, 2000

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
* 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