

# EPIC CAPITAL WEALTH MANAGEMENT

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## WEEKLY MARKET COMMENTARY

July 9<sup>th</sup>, 2012

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### The Markets

Where is the recovery in jobs?

In the 10 recessions between World War II and 2001, the jobs lost during the recession were fully recovered within 4 years of the previous peak in employment, according to the blog, Calculated Risk. In fact, with the exception of the 2001 recession, the previous 9 recessions had recovered all their lost jobs within a relatively short 2½ years.

The 2007 recession, however, is a different story.

At its nadir in February 2010, the U.S. economy had shed nearly 9 million jobs from its prior peak, according to the Bureau of Labor Statistics (BLS). As of last week's June employment report, the U.S. economy had recovered less than half of those lost jobs – *and we're more than 4 years removed from the peak employment level of late 2007*, according to the BLS.

Why has the jobs recovery from this recession been so painfully slow? Here are several reasons:

- (1) Recoveries from recessions caused by financial crises – like this one – are notoriously slow.
- (2) Extremely high economic policy uncertainty emanating from Washington made corporations cautious in hiring.
- (3) The extension of unemployment benefits to 99 weeks reduced some people's desire to find new work.
- (4) Uncertainty from events related to the euro crisis dampened business demand and the need for more workers.

Sources: Gary Becker, Nobel Prize Winner and Richard Posner blog; *The Wall Street Journal*

There is some good news, though, that could eventually provide a spark for new hiring.

Corporate profits as a percentage of gross domestic product (the value of all goods and services produced in the U.S.) recently hit an all-time high, according to Business Insider. This means corporate profits are at record levels. On top of that, corporate cash levels have reached historic highs which suggest corporations have plenty of money to reinvest for growth, according to Yahoo! Finance. With corporate profits and balance sheets looking solid, all we have to do is get these companies to start spending some of that cash on new hires. If that happens on a large scale, it could be a huge boost to the economy and the financial markets.

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Data as of 7/6/12	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.6%	7.7%	0.8%	14.7%	-2.4%	3.3%
DJ Global ex US (Foreign Stocks)	-0.1	1.0	-17.8	5.4	-7.4	4.6
10-year Treasury Note (Yield Only)	1.5	N/A	3.1	3.5	5.2	4.8
Gold (per ounce)	-0.7	0.8	3.9	19.7	19.6	17.7
DJ-UBS Commodity Index	1.1	-2.7	-13.8	5.0	-4.4	3.4
DJ Equity All REIT TR Index	1.2	16.3	10.2	33.2	2.0	10.9

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.

**INVESTORS HAVE GROWN VERY FICKLE** in recent years as measured by how long they hold on to a stock. There was a time when investors were really investors and bought a stock for the long run. In fact, between 1940 and 1975, the average length of time a New York Stock Exchange stock was held before it was sold was almost 7 years, according to data from the New York Stock Exchange as reported by a September 2010 Top Foreign Stocks blog post. By 1987, it had dropped to less than 2 years. And, in the highly volatile year of 2008, the average holding period was less than 9 months, according to The New York Stock Exchange.

So, does this fast trading result in better returns?

A highly quoted study by Brad Barber and Terrance Odean of University of California-Davis published in April 2000 analyzed the results of nearly 2 million trades from a discount brokerage firm between 1991 and 1996. The study concluded that the 20 percent of investors who traded the most frequently *underperformed* the 20 percent of investors who traded the least frequently by a whopping 7.1 percentage points on an annualized basis after expenses.

The main conclusion of the study was, "Trading is hazardous to your wealth."

One very interesting tidbit from the study was the gross returns between the frequent and infrequent traders were basically the same. In other words, stock selection was not a problem for the fast traders; rather, it was the expenses of the frequent trading that caused their net returns to lag far behind the infrequent traders.

From a practical standpoint, selling a stock is necessary from time to time. The study simply drives home the point that keeping trading costs as low as possible is critical to having net returns come close to gross returns.

## Weekly Focus – Think About It...

"Learn every day, but especially from the experiences of others. It's cheaper!"

*--John Bogle, founder of The Vanguard Group*

**Financial Factoid:** Federal spending on Social Security, Medicare and Medicaid has risen from 16% of total government spending in 1967 to 41% of spending in 2011 (source: Office of Management and Budget).

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**Irish Wit & Wisdom:** You dream things; and you say “Why?” But I dream things that never were; and I say “Why not?”

-- George Bernard Shaw, *Back to Methuselah*, 1921

Have a great week!

**Edward R. Doughty, CFP®**

**E-mail:** [edoughty@EpicCapitalWM.com](mailto:edoughty@EpicCapitalWM.com)

**Website:** [www.EpicCapitalWM.com](http://www.EpicCapitalWM.com)

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Securities offered through LPL Financial, Member FINRA/SIPC.

- \* 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.

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- \* Past performance does not guarantee future results.
- \* You cannot invest directly in an index.
- \* Consult your financial professional before making any investment decision