

# Weekly Commentary

## August 15, 2005

### The Markets

It seems like everything you read these days in the financial press revolves around the big three—oil, real estate, and interest rates. Not surprisingly, all three were in the news again last week.

Oil made headlines by reaching an all-time high of over \$67 per barrel according to data from the New York Mercantile Exchange. Since the beginning of 2005, crude oil prices have risen more than 50% on the heels of strong demand from emerging consumers such as China and India according to the *Wall Street Journal*. Despite the rise, the economy is still growing and inflation is not out of control.

Housing prices continue to rise. According to mortgage financier Fannie Mae, the purchase price of homes increased at a 16.5% annualized rate in the second quarter. Arizona, Hawaii, and Florida led the list as they grew at an annualized rate of 48.6%, 43.2% and 33.5% respectively in the second quarter according to Fannie Mae.

The Federal Reserve surprised no one last week when it raised the target for the federal funds rate by 25 basis points (one quarter of one percent) to 3 ½ percent. In the release that accompanied the Fed's announcement, the Fed kept most of the same language as previous releases and many market analysts suggest this means more rate hikes are in the offing. So far, it appears the economy has weathered the rate increases without slowing down too much.

Five years ago, these big three were hardly newsworthy. Oil prices averaged \$26.72 per barrel in 2000 according to the Department of Energy and that was no big deal. Housing prices were in the early stages of a bull market but people were not focused on it yet. And the 10-year Treasury bond was yielding just below 6 percent in August 2000 according to Yahoo! Finance, which was not an extreme level. If history is any guide, five years from now, we may be focused on a different big three. No matter what happens, through research, we try to stay on top of this “changing of the guard” and adjust our clients' portfolios to take advantage of it.

Returns through 8/12/05	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	0.4%	-1.7%	7.9	6.9%	-1.1%	8.6%
Nasdaq Composite	-1.0	-0.9	22.8	18.2	-10.9	7.9
Standard & Poor's 500	0.3	1.5	15.6	10.2	-3.8	8.2

Source: Yahoo! Finance, Barrons

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

3, 5 and 10-year returns are annualized. Assumes dividends are not reinvested.

**ONE OF THE BIG QUESTIONS IN RETIREMENT PLANNING IS** how much income do you need in retirement to maintain your pre-retirement lifestyle. Rules of thumb abound in this area but the reality is, each person's situation is different and requires an analysis based on that person's spending habits and desired lifestyle. A June 2005 study by Fidelity Investments sought to determine the nation's retirement readiness. The study found the typical working American household was on track to replace an estimated 59 percent of their projected pre-retirement income in retirement. Do you think you could survive comfortably in retirement on only 59% of your current annual income? The study also concluded that only 15 percent of American households are positioned to replace 85 percent or more of their pre-retirement income.

The survey participants expected a significant portion of their retirement income would come from Social Security and pension benefits. Given the status of Social Security, those benefits may not be as great in the future as people are counting on. If you are concerned about whether you are on track to be able to fund your desired lifestyle in retirement, please let us know so we can review your situation.

**WE ALL KNOW STATISTICS CAN BE MISLEADING** and here is one that is particularly misleading. CNN/Money reported on August 3 that the average U.S. household had a net worth of greater than \$400,000 as of the end of March 2005. The article quoted data from the Federal Reserve. On the surface, the number is accurate. If you take the Federal Reserve's data on the aggregate net worth of U.S. households and divide that by the number of U.S. households, you do get a number greater than \$400,000. Here is why that calculation is misleading. The average net worth includes the net worth of extremely wealthy people like Bill Gates and Warren Buffett who tend to skew the average way up.

A more accurate way to look at the net worth of the typical American household is to figure out the median net worth. This figure represents the midpoint meaning half of the households have a net worth higher than this number and half have a net worth lower than this number. The most recent estimate for the median net worth of American households is \$86,100. That figure is for 2001 and comes from a January 2003 Federal Reserve Bulletin. In this case, the median household net worth figure gives us a much more accurate picture of the typical American household's financial situation compared to the average figure.

Our point is this. Whenever we come across statistics that strike us as surprising, we dig deeper. Rather than take them at face value and make investment decisions based on that, we try to look under the hood and see if the source reporting the statistic has an agenda or an angle that they are trying to push. Like the example above, the statistic CNN/Money quoted was accurate but ultimately misleading. By doing this extra digging, we try to stay ahead of the average investor by basing our decisions on the most relevant information, not just the reported information.

**Weekly Focus – Hang Ten**

Can you imagine a wave of water over 90 feet tall? That is what happened last year in the Gulf of Mexico according to scientists at the Naval Research Laboratory. As Hurricane Ivan passed through the Gulf, the laboratory's wave-tide gauges recorded multiple waves of more than 90 feet. Previously, scientists thought waves of this size were "rogue" waves that happened infrequently. This new data concluded that they happened with higher frequency than previously thought.

The data also showed that during Hurricane Ivan, the average of the largest 1/3 of the waves that passed the laboratory's wave-tide gauges was about 58 feet. Unfortunately for surfers, these waves tend to dissipate before they reach the shore.

Best regards,

Russ Story, CSA  
and Chris Tuten FA

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 email with their email address and we will ask for their permission to be added.

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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 Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.

\* The Nasdaq Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.

\* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

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