

Weekly Commentary December 13, 2010

The Markets

Let's make a deal.

That's what President Obama did last week with the Republicans and the financial ramifications of the broad tax package are already starting to ripple through the financial markets. Last week, stock prices hit a two-year high, interest rates rose significantly, the dollar strengthened against a GDP weighted basket of other currencies while gold hit a new high...then fell back, according to Associated Press, Bloomberg and *The Financial Times*.¹

The tax package is estimated to cost the government as much as \$900 billion over the next few years, according to Associated Press.² Understanding how this potential budget deal will affect each of the above asset classes could provide clues about the future direction of the financial markets. Here are some possibilities:

- Stocks -- the added stimulus from the package could add as much as 1 percentage point to economic growth next year, according to economists from Goldman Sachs.³ The perception is that this could be bullish for the stock market.
- Bonds -- stronger economic growth, coupled with a potential increase in the budget deficit due to the nearly \$900 billion cost of the tax package, could lead to higher interest rates and act as a governor on stock prices.
- Dollar -- higher interest rates and faster economic growth could increase demand and help strengthen the dollar. This may lead to weaker exports and lower inflation, according to Marketwatch.⁴ Conversely, larger budget deficits could cause investors to lose faith in our currency; creating downward pressure on the valuation of the greenback.
- Gold -- higher interest rates and a stronger dollar could reduce demand for gold. However, if investors fixate on the increased budget deficit, this could entice investors to buy gold as a "safe-haven" against increasing deficits and a weaker dollar.

As you can see, there are no simple "if this, then that" scenarios in the financial markets. Instead, the financial markets consist of vast webs of interrelationships among asset classes that are fluid, dynamic and ever changing. Our job is to try and stay on top of it all for you.

¹ <http://www.bloomberg.com/news/2010-12-11/dollar-rallies-after-u-s-tax-cut-agreement-improved-outlook-for-economy.html>

² http://news.yahoo.com/s/ap/20101208/ap_on_bi_st_ma_re/us_wall_street

³ http://news.yahoo.com/s/ap/20101208/ap_on_bi_st_ma_re/us_wall_street

⁴ <http://www.marketwatch.com/story/officials-call-for-strong-dollar-cant-stem-slide-2009-10-14?pagenumber=1>

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.

Data as of 12/10/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.3%	11.2%	12.1%	-6.5%	-0.3%	-1.1%
DJ Global ex US (Foreign Stocks)	0.1	7.6	9.2	-8.7	2.3	3.2
10-year Treasury Note (Yield Only)	3.3	N/A	3.5	4.2	4.6	5.4
Gold (per ounce)	-2.0	24.6	21.9	19.3	20.7	17.6
DJ-UBS Commodity Index	-0.3	10.2	15.9	-4.9	-2.9	2.8
DJ Equity All REIT TR Index	-1.2	23.6	30.2	-3.5	2.4	10.8

IN AN IRONIC TWIST OF FATE and despite the fact that the U.S. is running record budget deficits, we still have money to burn -- literally. In an effort to thwart counterfeiters, the U.S. government spent 10 years designing new \$100 bills that contain sophisticated security features including a 3-D security strip and a color-shifting image of a bell, according to Yahoo! News.⁵

Turns out the bills were too sophisticated for the printing presses and up to \$110 billion of the newly printed bills, which are sitting in a vault, will have to be torched! Oops.

During the printing process, some of the bills incurred a crease which caused a blank spot to appear. Manual inspection showed that properly printed bills are mixed in with bad bills and the government estimates it will take one year to separate the good bills from the bad bills. Oh, and it cost the government around \$120 million to print these bills.

Looks like “printing money” is not as easy as we thought. The biggest loser in all this -- besides the U.S. taxpayer – are the trees.

Weekly Focus – Think About It

“A man's errors are his portals of discovery.” --*James Joyce*

Best regards,

Scott Lask

The Scott Lask Wealth Management Group

Securities offered through Wedbush Securities Inc., Member NYSE/FINRA/SIPC.

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.

Disclosures:

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. Any views or opinions presented do not necessarily represent those of Wedbush Securities Inc.

* Past performance does not guarantee future results.

⁵ http://news.yahoo.com/s/yblog_thelookout/20101206/us_yblog_thelookout/government-cant-print-money-properly

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.

- * This newsletter was prepared by PEAK. Wedbush Securities Inc. is not affiliated with Peak.
- * 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.

- * You cannot invest directly in an index.

- * Consult your financial professional before making any investment decision.

- * To unsubscribe from the Scott Lask Wealth Management Newsletter, please reply to this e-mail with "Unsubscribe" in the subject line, or write us at LaskWealthManagement@wedbush.com.

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.