

Weekly Commentary May 14, 2012

The Markets

Even the smartest guy in the room sometimes makes mistakes.

Jamie Dimon, CEO of the huge U.S. bank JP Morgan, has been called the smartest guy in the room for his ability to effectively steer the bank through the economic crisis. And, while most of the other big U.S. banks have tarnished reputations, Dimon's firm was the one that stood out from the crowd.

Unfortunately, that all changed last week.

In a hastily arranged conference call with investors, Dimon revealed that the bank lost \$2 billion in just the past six weeks on "bets aimed at shielding the bank from the market fallout of Europe's deepening mess," according to *The Wall Street Journal*. These "bets" lost money due to "unusual movements in the relationships between various derivative indexes focused on investment-grade and junk-bond corporate debt, both in the U.S. and Europe," according to the *Journal*.

This debacle points to three important investment lessons:

1. **Keep it simple.** Trading fancy derivatives or using complex black box trading strategies might give you an air of sophistication, but it may also lead to your downfall. As Leonardo da Vinci said, "Simplicity is the ultimate sophistication."
2. **Pick and track your investments closely.** In describing the trades that blew up, Dimon said, "The new strategy was flawed, complex, poorly reviewed, poorly executed, and poorly monitored," according to Bloomberg. Clearly, in this ever-changing world, a "set it and forget it" investment strategy won't cut it.
3. **Be humble.** Even a smart guy like Dimon can trip up. One of the biggest errors in investing is self-deception – thinking and acting like you are the smartest guy in the room. It's better to worry about what could go wrong – and plan for it – than think you're invincible.

The investment landscape is littered with formerly sharp investors who forgot these three lessons. We plan on keeping them front and center.

Data as of 5/11/12	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-1.2%	7.6%	1.2%	14.2%	-1.9%	2.5%
DJ Global ex US (Foreign Stocks)	-2.9	3.5	-17.1	7.0	-6.1	4.6
10-year Treasury Note (Yield Only)	1.8	N/A	3.2	3.2	4.7	5.1
Gold (per ounce)	-3.7	0.5	5.0	20.1	18.8	17.7
DJ-UBS Commodity Index	-1.7	-4.2	-15.6	3.8	-4.9	3.0
DJ Equity All REIT TR Index	0.6	13.6	10.4	30.7	0.4	10.8

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.

DOES IT MAKE SENSE that a painting sells for \$120 million in this economic environment?

You may have seen the recent headline that Edvard Munch's painting, "The Scream," sold for a record-breaking \$120 million. It made us wonder what the implications are of an anonymous bidder forking over that kind of cash for a pastel on canvas just three years out from a horrible economic crisis. Does this mean happy days are here again?

Placed in broad context, the high sale price for a work of art might be symptomatic of policymakers' response to the economic crisis, according to *The Wall Street Journal*. When the economy began collapsing in 2008, governments around the world responded by cutting interest rates and flooding their economies with monetary stimulus. All this money sloshing around had to end up somewhere – and some of it might have found its way into hard assets such as commodities, precious metals, collectibles, and, yes, an Edvard Munch painting.

There's something called the law of unintended consequences, which means solving one problem might inadvertently create a new one. In this case, the massive stimulus in recent years propped up the economy in the short run, but it may have unintentionally masked the real problem and simply delayed a day of reckoning.

With the following economic and political issues in play, that day of reckoning may be nearing:

- Eleven European countries have experienced two consecutive quarters of economic contraction.
- The unemployment rate across the eurozone has matched a record high.
- Job growth in the U.S. is slowing.
- The Chinese economy is slowing.
- The political situation in Greece is chaotic.
- France has a new Socialist president.

Sources: MarketWatch, *The Wall Street Journal*

Now, the good news. In any economic environment, there will be winners and losers. As the steward of your financial life, we do everything we can to try and help you land on the winning side regardless of what the economy and markets throw in our way.

Weekly Focus – Think About It

“Nature is pleased with simplicity. And nature is no dummy.”

--Isaac Newton, *English physicist, mathematician, astronomer, natural Philosopher, alchemist, theologian... yes, a really smart guy!*

Best regards,



Bryan J. Sweet, CLU, ChFC, MSFS, CFS

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 contact the office with their e-mail 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.
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- * 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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Sources:

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