Weekly Commentary
July 19, 2010

The Markets

What is the most actively traded security on the planet?

The answer is the two-year Treasury note and its current yield is sending us a signal, according to *Bloomberg*, July 17. Last week, the yield on the two-year note fell for the seventh straight week and touched its lowest level ever. At just under 0.6%, it is now lower than during the peak of the financial crisis in the fall of 2008.

What does this signal?

In short, it suggests the economy is slowing down, inflation is not a threat, deflation is a possibility, and money-market rates will remain historically low, according to *BusinessWeek*, July 15, *Barron's*, July17, and *Bloomberg*, July 17. Hereôs a list of several economic reports released last week that help support this view:

- U.S. consumer sentiment tanked in early July, according to a survey by Reuters and the University of Michigan (*MarketWatch*, July 16).
- The consumer price index dropped for the third straight month in June, according to data from the Labor Department (*Market Watch*, July 16).
- Industrial production rose a modest 0.1% in June after having risen 1.2% in May, according to the Federal Reserve, July 15.
- Another report released by the Federal Reserve, June 22, said, ñThe economic outlook had softened somewhat and a number of members saw the risks to the outlook as having shifted to the downside.ò
- The dollar has posted significant declines recently against the euro and yen as traders position themselves for a potential slowdown in the U.S., according to *Bloomberg*, July 17.

While the data above points toward economic softness, second quarter corporate profits are coming in strong. Of the 48 companies in the S&P 500 index that have reported their earnings, 75% have topped analystsô estimates, including a blow-out quarter from Intel, according to *Reuters*, July 16.

The tug-of-war between soft economic data and strong corporate profits is helping keep the market stuck in a bouncy trading range.

Data as of 7/16/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-1.2%	-4.5%	13.2%	-11.8%	-2.7%	-3.4%
DJ Global ex US (Foreign Stocks)	0.6	-6.6	13.7	-12.4	2.0	0.3
10-year Treasury Note (Yield Only)	2.9	N/A	3.6	5.0	4.2	6.2
Gold (per ounce)	-1.6	7.7	27.2	21.3	23.1	15.5
DJ-UBS Commodity Index	0.5	-8.4	7.8	-9.3	-4.2	2.3
DJ Equity All REIT TR Index	-1.8	6.8	53.8	-9.2	0.0	9.9

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, Barronôs, 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.

HOW DO YOU SOLVE A PROBLEM LIKE JOBS? This question has a double meaning--jobs as in employment and Jobs as in Steve Jobs of Apple.

Chronically high unemployment in the U.S. is having a debilitating effect on our economy. We can point to many causes for this, but one that receives lots of press is the outsourcing of jobs overseas--and thatôs where Steve Jobs comes in.

Without getting into a political debate about the pros and cons of free trade, it turns out that in a little recognized fact, Apple is one of the biggest beneficiaries of outsourcing jobs overseas. We canôt get enough iPods, iPhones, iPads, and Macs, but relatively few of the jobs created by our insatiable demand are sprouting on our shores.

According to Apple and *BusinessWeek*, as of September 26, 2009, Apple had about 37,000 full-time equivalent employees of which about 25,000 were based in the U.S. By contrast, Apple has subcontracted with a Chinese company called Foxconn *that employs roughly 250,000 people who are devoted to building Apple products.* Doing the math, for every one Apple employee working in the U.S., there are 10 Foxconn employees building Apple products in China. Knowing that costs are much lower in China (and that Apple products are in high demand), is it any surprise that Apple earned $3 billion in profit with a 42% gross margin in the first three months of this year?

Again, this is not meant to start a political debate about free trade or protectionism as there are many facets to this issue. It simply points out the intractable nature of high unemployment in the U.S., particularly in the manufacturing sector. Some people argue that free trade and capitalism are the best ways to grow jobs and profits. Others, notably former Intel chairman and chief executive officer Andrew Grove (*Bloomberg*, July 1), argue for protectionist measures to rebuild our domestic manufacturing base.

Ultimately, America needs to get its people back to work. The Apple example shows just how difficult that may be.

Weekly Focus – Think About It

ñI want to put a ding in the universe.ò
--Steve Jobs

Best regards,

Todd and Gillette

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.

* This newsletter was prepared by 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.

* 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.

* To unsubscribe from the Weekly Commentary please reply to this e-mail with ñUnsubscribeò in the subject line, or write us at 311 S. East St. Suite 100 Culpeper, VA 22701.