

Weekly Commentary August 29, 2011

The Markets

Like wanderers in the desert, investors breathed a sigh of relief when an oasis appeared last week. After Federal Reserve Chairman Ben Bernanke's speech, the Dow Jones Industrial Index posted its first weekly gain in more than a month, finishing at 11,284, an increase of more than 4 percent for the week. The Standard & Poor's Index and Dow Jones Global ex US Indices also were up for the week. In addition, the Chicago Board of Exchange Volatility Index (VIX), which is known as the 'fear index' because it reflects the amount of volatility investors anticipate in the next 30 days, fell by more than 10 percent. According to *The Wall Street Journal*, the head of U.S. equities index trading at Barclays Capital said that after Mr. Bernanke's speech, some investors set up options positions that are designed to profit from improving stock market stability in the future.

While stock markets reflected optimism, economic indicators provided a mixed picture. According to *Barron's*:

- The Commerce Department revised second quarter's Gross Domestic Product growth number down slightly to 1.0 percent annualized from 1.3 percent.
- Inflation estimates remained relatively stable.
- The manufacturing sector showed strength as new orders for durable goods increased 4 percent during July.
- Sales of new and existing homes fell, and the Federal Housing Finance Agency's purchase-only house price index showed that housing prices fell quarter-to-quarter.
- Despite debt-ceiling woes, a downgrade of U.S. credit, concerns about European debt, and a wildly volatile stock market, the Reuters/University of Michigan survey consumer showed that consumer sentiment improved slightly.
- Despite improved sentiment, the survey also found that consumers don't expect things to get better any time soon.

While a week with positive market performance was welcome, the question remains: Has stability returned or is this just a shimmering illusion? Only time will tell.

Data as of 8/26/11	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	4.7%	-6.4%	12.4%	-2.5%	-2.0%	0.0%
DJ Global ex US (Foreign Stocks)	0.7	-12.5	3.5	-3.4	-2.0	4.2
10-year Treasury Note (Yield Only)	2.2	N/A	2.5	3.8	4.8	4.9
Gold (per ounce)	-3.2	26.8	44.5	29.3	23.9	20.8
DJ-UBS Commodity Index	1.3	-0.8	23.8	-6.0	-1.1	4.7
DJ Equity All REIT TR Index	3.7	0.1	14.1	1.2	-0.5	9.2

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.

America has had four national banks since the American Revolution. There has been a lot of talk recently about the roles of central banks in countries around the world, including the Federal Reserve (the Fed) in the United States. While the Fed may be the most frequently well-known, it is actually the fourth national bank in the U.S. The first was the Bank of the United States, which was created in 1791 to help consolidate debt from the Revolutionary War. Once the bank had successfully paid down the debt, Congress did not see any further need for a national bank, and voted not to renew the bank's charter in 1811.

In the early 1800s, state banks were issuing their own currencies. As debts from the War of 1812 mounted, many suspended payments on their currencies. By 1816, public sentiment favored a national bank that would make state banks pay, and the second Bank of the United States was set up. President Jackson objected to the bank because he believed that powerful private institutions were susceptible to corruption and hard to control. The bank's charter was allowed to expire in 1836.

In 1863, the need to finance the Civil War led to the creation of a national banking system. Banks with national charters issued currency that was printed by the government and backed by federal bonds. By 1865, state currencies disappeared and the United States had its first uniform national currency. The banking system was plagued by panics, however, experiencing at least one per decade after the Civil War. This caused Congress to reconsider the structure of the system and the Federal Reserve Act, which created the Federal Reserve, became law in 1913. Today, the national banking system includes:

- **A Board of Governors**, which sets reserve requirements for member banks and discount rates for district banks. It also reviews the budgets of district banks.
- **12 Federal Reserve district banks**, which are private institutions established to serve the public interest. Originally, they issued money that could be redeemed in gold.
- **The Federal Open Market Committee** was established in 1933, when the gold standard ended, to ensure responsible monetary policy.
- **The Federal Advisory Council** includes a bank executive from each district. It advises the Board about the state of the industry and money supply.
- **The Consumer Advisory Council** looks out for the interests of consumers, communities, and the finance services industry. Members are appointed by the Board.
- **Several thousand member banks**, which may include your bank.

Weekly Focus – Think About It

A rising nation, spread over a wide and fruitful land, traversing all the seas with the rich productions of their industry, engaged in commerce with nations who feel power and forget right, advancing rapidly to destinies beyond the reach of mortal eye; when I contemplate these transcendent objects, and see the honor, the happiness, and the hopes of this beloved country committed to the issue and the auspices of this day, I shrink from the contemplation and humble myself before the magnitude of the undertaking. --*Thomas Jefferson, First Inaugural Address*

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.

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* This newsletter was prepared by Peak Advisor Alliance.

* 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.

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