

Weekly Commentary

December 23, 2011

Wishing you and your families a happy and safe holiday weekend!

The Markets

If it feels like the stock market has been volatile this year, you're right. Here are a few examples:

- Three-month historic volatility for the “fear” gauge known as the VIX hit a record on October 31, surpassing the prior peak from December 2008.
- Intraday swings in the Dow Jones Industrial Average have averaged 261 points since August 1, an exceptionally large number.
- On four consecutive days back in August, the Dow Jones Industrial Average alternated between gains and losses of more than 400 points, the longest streak ever.

Source: Bloomberg, December 15, 2011

All this volatility and the lack of a clear, sustained direction in the market have frustrated many investors.

Even hedge fund managers are struggling. Overall, they've declined an average of 4.4 percent this year through November, according to Hedge Fund Research. As Mustafa Jama, chief investment officer at Morgan Stanley Alternative Investment Partners recently said to Bloomberg, “What we're seeing now is a sustained period of high volatility that's proving very challenging for a lot of hedge fund managers.”

The problems in Europe and the budget wrangling in the U.S. have kept investors in a risk-on, risk-off mode throughout much of this year. As a

result, many stocks have traded in herd-like fashion without much regard to individual company fundamentals, according to investment manager Duke Buchan, III.

At times like this, it's important to have patience and as Warren Buffett says, wait for that "fat pitch." (MSN Money, June 17, 2009)

Data as of 12/16/11	1-Week	Y-T-D	1-Year	3-Year
Standard & Poor's 500 (Domestic Stocks)	-2.8%	-3.0%	-2.0%	10.1%
DJ Global ex US (Foreign Stocks)	-3.9	-18.8	-16.7	8.3
10-year Treasury Note (Yield Only)	1.9	N/A	3.5	2.4
Gold (per ounce)	-6.7	13.0	16.9	23.9
DJ-UBS Commodity Index	-4.2	-15.6	-10.8	6.4
DJ Equity All REIT TR Index	0.2	3.6	9.2	19.6

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.

WHAT IS THE PRICE OF ECONOMIC GROWTH in China and how does it affect us in the U.S.? Ever since 1978 when Chinese leader Deng Xiaoping laid out a vision of economic reform, China has been on a growth spurt of massive proportion. However, that growth comes with a huge price in the form of limited freedom. Last week, Chinese leaders clamped down again on freedom of speech in an effort to control the spread of social unrest.

In China, the government blocks access to the microblog service "Twitter" and, instead, a Chinese version called "Weibo" has become popular. In total, more than 300 million Chinese people use microblogs, with Weibo the most popular, according to Bloomberg, December 17.

Regarding last week's clampdown, Chinese officials announced that users of Weibo in Beijing will have to register their real names and be verified by government authorities before posting on the service. In addition, users are banned from posting anything that could lead to disrupting the social order, according to *The Wall Street Journal*, December 17.

This isn't the first government crackdown on freedom of speech. Earlier in the year, the government blocked citizens' access to searches on the "Arab Spring" that was rumbling through the Middle East. Prior to that, the government blocked access to Facebook, YouTube, and Google.

What's the government's problem with freedom of speech?

As the "Arab Spring" uprising in the Middle East demonstrated, social media can enable millions of people to communicate and mobilize in short order. China seems to be very afraid of letting its citizens have this capability for fear that a popular uprising could lead to chaos in a sprawling country of 1.3 billion people.

With China still a major growth engine for the world economy, we have to pay close attention to any social trends affecting the country. If the government clamps down too hard and its citizens rise up, it could quickly morph from a social/political movement to one that has major worldwide economic implications. On top of that, China is gearing up for a once in a decade leadership change in 2012 and, given the country's history, a smooth transition is not guaranteed, according to *The Economist*, October 21, 2010.

When investing money, you have to consider possible "black swan" events that have a low probability of occurring, but, if they do occur, could wreak havoc. A Chinese uprising could be one of those events.

Weekly Focus – Think About It

"If the freedom of speech is taken away then dumb and silent we may

be led, like sheep to the slaughter.” --*George Washington, U.S. President*

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