



THE PINNACLE GROUP

An Independent Firm

Market Commentary January 23, 2012

The Markets

We're only three weeks into the New Year and already some very interesting trends have developed in the markets. Consider these four:

1. **The worst performing stocks in 2011 have been the best performing in 2012.** Bespoke Investment Group did an analysis and discovered that the 50 *worst* performing stocks in the S&P 500 in 2011 were up a whopping 11.2 percent YTD 2012 as of last Wednesday. By contrast, the 50 *best* performing stocks in 2011 were up only 2.1 percent so far in 2012. What a difference a "turn of the calendar" makes!
2. **U.S. Treasury securities are off to their worst start in nine years.** With improvements in the employment situation, housing sales hitting an 11-month high and a reprieve in the European debt problem, investors have less need for conservative treasuries and a bigger appetite for riskier stocks, according to Bloomberg and CNBC. At the moment, investors seem to be saying, "risk on."
3. **U.S. stocks rose for the third consecutive week and are near a six-month high.** Despite a decidedly mixed start to the 4th quarter earnings season, stocks have roared out of the gate this year and are now up 20 percent from the October 2011 low, according to Reuters. Of course, too much euphoria could lead to disappointment later.
4. **The CBOE Volatility Index (VIX) declined nearly 22 percent in the first three weeks of this year.** The big decline in the VIX suggests investors are less fearful about near-term market volatility, according to CNBC. In fact, the VIX is down to a seven-month low, according to Reuters. While the markets may be calm now, we're not complacent.

Trends come and go in the market, but one thing that stays constant is our diligence in helping you reach your goals.

Data as of 1/20/12	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	2.0%	4.6%	2.5%	17.8%	-1.6%	1.6%
DJ Global ex US (Foreign Stocks)	3.9	5.4	-12.3	14.6	-4.2	5.3
10-year Treasury Note (Yield Only)	2.0	N/A	3.5	2.4	4.8	4.9
Gold (per ounce)	1.1	5.0	22.9	24.7	20.9	19.3
DJ-UBS Commodity Index	0.5	0.4	-12.3	8.6	-2.6	4.8

DJ Equity All REIT TR Index	2.5	3.7	11.2	32.2	-1.5	10.6
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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.

WHY IS IT THAT CONSERVATIVES TEND TO WATCH FOX NEWS and those with more liberal leanings tend to watch MSNBC? Psychologists would tell us it's because of what they call "confirmation bias." Confirmation bias is the tendency of humans to seek information that confirms an already held belief or opinion and to avoid or discount information that might contradict an existing belief or opinion.

This concept also applies to investing and it's very important to *avoid* it as much as possible.

For example, let's say we're really bullish on the U.S. stock market. If we let confirmation bias cloud our judgment, then during our research, we would tend to read the reports that support our bullish view of the market and let that reinforce our decision to be bullish. By contrast, we would tend to avoid reading the reports that are bearish, or, if we do read them, we would come up with reasons why they were wrong.

When we're under the spell of confirmation bias, it's easy to miss turning points because we're stuck on our current belief or opinion and won't change even when we see contradicting evidence. That, of course, would be bad for your long-term wealth.

How strong is the confirmation bias pull?

A 2009 meta study published by the American Psychological Association reviewed 91 studies in the area of confirmation bias and concluded that *people were nearly two times as likely to seek information which supported their existing view than to seek information which contradicted their current view.* That's a strong pull!

How do we overcome this pull?

Here are two keys that could help:

1. **Acknowledge that confirmation bias exists.** Knowing that it exists helps us try to avoid falling into its trap.
2. **Actively seek contradictory opinions.** This is another way of asking what could go wrong with an investment and then doing our best to ensure we understand the "other side of the coin."

So, in addition to making a "rational" case for an investment, we have to make sure we avoid letting psychological biases get in the way.

Weekly Focus – Think About It

“If you take emotion – would be, could be, should be – out of it, and look at what is, and quantify it, I think you have a big advantage over most human beings.”

--John W. Henry, trading advisor, principal owner of Boston Red Sox

Keep the Faith, Faith is the Spirit,

Carl

G. Carl Mahler, Jr., CFP®

P.S. If you have family, friends, or colleagues that might enjoy receiving our weekly commentary, please email Danyelle Babson at Danyelle@pinnaclegroup.net with their name and email address and we'll 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.

* 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.

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* You cannot invest directly in an index.

* Consult your financial professional before making any investment decision.

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