

Thank God It's Friday!

August 1, 2008



As the inimitable investment professional, John Templeton once said, "Try and stay flexible; open-minded yet skeptical." This timely quote expresses his contrarian, and highly positive approach to global investing. Regretfully, Sir John Templeton passed away last month but we hope his wisdom will be heeded today when skepticism is pervasive on Wall Street and Main Street.

Consumers have been barraged with gloom and doom in the papers and on television. The government publishes its Consumer Price Index which doesn't look bad until you realize it EXCLUDES food and energy prices. Consumer prices, INCLUDING food and energy, are up close to 12% in recent months. This fact hurts even more when you consider that annual wages are up only 3%. To add insult to injury, pension and social security cost-of-living increases are only rising about 2.3%. It is no wonder consumers are really feeling the squeeze. It is no wonder that consumer confidence is at a 16-year low.

The continued rise in food and energy prices is where the consumer is feeling it the most. We are paying \$4 for a box of Cheerios, UP 10% over last summer. Our milk now costs 9% more than it did last year. Meat, poultry and fish have gone up only 3% with fruits and veggies up 7% as well. What's a parent to do? Knock off the breakfast cereal? Serve more bacon 'n eggs in the morning? Let's not even mention cholesterol.

Rising oil prices and the cost of feed have increased the price farmers receive for crops and livestock by 16%. There are some interesting dynamics behind our increasing pain at the grocery store:

- There have been global changes in the production and the consumption of key commodities. Rapid growth in developing countries has created a growing global demand for food. Growth in the production of bio-fuels has further increased the demand for corn and vegetable oil.
- At the same time the growth in agricultural productivity has slowed, changing our historic agricultural surpluses to a shortage in some products.
- The depreciation of the US dollar has had a global impact on the cost of food since crude oil and grain are traded in US dollars, but purchased in local currency.

Over the years, prices rise and prices fall. Consumers, farmers and politicians respond causing markets to adjust accordingly. The challenge facing our government now is to deal with the short-term effects without creating a new set of problems going forward.

INDEX	08.01.2008	12.31.2007	%Change
DOW JONES	11,326	13,265	-14.62%
S&P 500	1,260	1,468	-14.17%
NASDAQ	2,310	2,652	-14.81%
Bond YIELD	3.95%	4.03%	-*1.99%

Bond Prices  Bond Yield % 

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