



## The Markets

When is a dollar not worth a dollar?

A McDonald's Big Mac costs an average of \$3.71 in the United States, according to an October 14 article from *The Economist*. Just across the border in Canada, that same burger costs \$4.18 based on the October 13 exchange rate. In the Euro area, you'd have to shell out \$4.79 to quench your Mac attack. But, if you're really hungry, you should forget going to Switzerland because a Big Mac there will set you back a whopping \$6.78 at the going exchange rate.

So, a dollar is not worth a dollar when its value declines relative to another country's currency such as the ones above. The dollar is also weak against the Japanese yen, where it fell to a 15-year low last week, and the Australian dollar, where it fell to a nearly 30-year low, according to MarketWatch.

What's going on here?

Essentially, the combination of economic weakness in the U.S., extremely low interest rates, and our country's easy money policy, have conspired to reduce the value of our currency relative to some other countries. And, as our government knows, a weak currency can be a net positive -- *as long as it doesn't get too weak*.

According to an October 1 weekly update from Linda Duessel at Federated Investors, "Currency depreciation is the most politically palatable way to deal with both deficits and slow growth. Unfortunately, history suggests depreciating the dollar is the worst possible way to deal with public debt. It spawns inflation, stifles growth and eats away at earnings."

The relatively weak value of the dollar may not crimp your day-to-day lifestyle right now. However, as an advisor, it's an important macro indicator that could impact the value of your portfolio -- and your pocketbook -- if it gets too far outside of historical norms. It bears watching.

<b>Data as of 10/15/10</b>	<b>1-Week</b>	<b>Y-T-D</b>	<b>1-Year</b>	<b>3-Year</b>	<b>5-Year</b>	<b>10-Year</b>
Standard & Poor's 500 (Domestic Stocks)	1.0%	5.5%	8.1%	-8.8%	-0.2%	-1.5%
DJ Global ex US (Foreign Stocks)	1.3	7.5	6.6	-9.0	3.8	3.2
10-year Treasury Note (Yield Only)	2.6	N/A	3.5	4.7	4.5	5.7
Gold (per ounce)	1.9	23.9	29.8	21.7	23.6	17.5
DJ-UBS Commodity Index	0.9	4.7	9.3	-6.6	-3.9	3.0
DJ Equity All REIT TR Index	1.4	24.0	34.1	-5.1	4.0	11.5

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.

**WHILE THE PURCHASING POWER OF THE DOLLAR** can be analyzed using a Big Mac, it can also be analyzed using something less edible -- gold. Gold has been considered a medium of exchange for several thousand years, according to the National Mining Association. And, for some people, it is the soundest "currency" in existence today because it is scarce, it can't be printed (mined) freely, and it has a long history of being valuable and tradable.

Measuring the value of the dollar in terms of gold is quite simple. All you do is plot the dollar cost of one ounce of gold over time. Back in the early 1930s when our country was on the gold standard, gold was set at a fixed price of \$20.67 per ounce, according to *The Economist*. In the early 1970s, the last vestiges of the gold standard were removed and the price of gold was allowed to reach a "market" price. As of last week, that market price was over \$1,300 per ounce.

The rise of gold from \$20 an ounce to over \$1,300 an ounce was effectively a massive devaluation of the dollar, according to *The Economist*. Had you bought an ounce of gold in 1930 for \$20 and held it to today, you could sell it for more than \$1,300. Had you just sat on your \$20, it would still be worth \$20, *but it would buy you less than 1/50<sup>th</sup> of an ounce of gold.*

The funny thing about gold is that it's not an "investment" in the traditional sense because it does not pay a dividend and it does not generate cash flow. It just sits there and looks really pretty. However, given that its price in dollar terms has risen dramatically over the past 80 years, it's clear that people do place a value on it.

## **Personal Notes**

**From Ernest** - As you read this, I am enjoying myself down in Louisiana with my family. I finally decided that it had just been too long since I visited my brother who lives in Shreveport, so we hopped on a flight and came down for a long weekend. I will be back in the office Wednesday morning. I'll let you know next week if I run across any alligators while I'm down here in the bayou!

**From Bil (in China):** My wife and I each teach five classes. I teach International Economics and Topical Discussions about American History and Culture. Leah Jane teaches Oral English and English Writing. All of our students are very bright and very well educated. They all speak, read and write English quite well and many of them speak 3 or even 4 languages. Our role as teachers is to help them progress in their use of English. We are doing various things that will help us to get to know the students so that we can tailor our lessons to fit what they need. Since most of them will be in our classes the second semester also, we expect to get to know them very well.

## **This Week's Riddle:**

What is placed on a table and cut, but never eaten?

## **Last Week's Riddle:**

I am a word that signifies a wide natural area - but remove my first letter, and you are left with a word signifying a narrow urban corridor. What word am I? **Last Week's Answer:** Valley - Remove the V and you get "Alley".

## **Weekly Focus - Think About It**

More gold has been mined from the thoughts of men than has been taken from the earth." --*Napoleon Hill*

Best Regards,

## **Bil Jeppson and Ernest Hathaway**

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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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\* 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.

\* This newsletter was prepared by PEAK.

\* 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.

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