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Weekly Commentary
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The Markets

Who should you believe, Warren Buffett or Bill Gross?

Buffett and Gross are generally recognized as two of the world's greatest investors. Buffett made his name in equities while Gross made his name in bonds as the head of Pimco, a trillion-dollar money management company. Both have outstanding multi-decade track records and both are billionaires.

Yet, today, they disagree on the merits of investing in "currency-based investments" such as money-market funds, bonds, mortgages, bank deposits, and other instruments.

Buffett says these investments "are among the most dangerous of assets. Their beta may be zero, but their risk is huge." Further, he says, "Right now bonds should come with a warning label," according to a February 9 *Fortune* magazine article.

His beef with currency-based investments is they do not protect you from the risk of inflation. You may get your principal back plus interest, but, in times of high inflation, your "real" return may not keep up with inflation and you could lose purchasing power.

Gross, on the other hand, has piled into bonds in a big way.

After dumping all of his U.S. government debt securities in early 2010, Gross has steadily built it back up according to Bloomberg.

Gross favors government securities in the 5- to 7-year maturity range because of the Federal Reserve's pledge to keep short-term rates low.

Okay, how do you reconcile the divergent views of two outstanding investors? Quite likely it's a matter of timing. Buffett is probably looking at a 7- to 10-year time horizon and, in that scenario, bonds might lose purchasing power and could experience capital losses if interest rates rise and bond prices decline.

Gross, though, is probably thinking shorter term. With the Fed's pledge to keep interest rates low for the next couple years and the economy still stuck in slow motion, the risk of bond prices declining and inflation rising rapidly in the short term may be manageable.

Bottom line, it's not just your outlook that matters, it's also important to know the ***timeframe*** for your outlook.

Data as of 2/10/12	**1-Week**	**Y-T-D**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
Standard & Poor's 500 (Domestic Stocks)	-0.2%	6.8%	1.0%	17.5%	-1.3%	1.9%
DJ Global ex US (Foreign Stocks)	-0.4	9.6	-9.9	14.8	-3.7	5.9
10-year Treasury Note (Yield Only)	2.0	N/A	3.7	2.9	4.8	4.9
Gold (per ounce)	-1.3	8.7	26.5	23.4	20.8	19.1
DJ-UBS Commodity Index	-0.4	3.0	-11.3	9.4	-2.4	4.8
DJ Equity All REIT TR Index	-2.1	6.7	9.0	33.6	-1.9	10.8

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 IF the keepers of the Dow Jones Industrial Average added Apple to the index in 2009 instead of Cisco Systems? This is not just a hypothetical exercise; rather, it makes an important point about using indices to measure overall market performance.

In June 2009, General Motors and Citigroup were removed from the Dow 30 average and replaced by Cisco and Travelers Cos, according to Bloomberg. At the time, Cisco was trading at about $19.50 per share. Last week, Cisco traded at about $20.00 per share – essentially no change in nearly three years. By contrast, Apple was trading at about $143 per share in June 2009 and closed last week near $500 per share.

Unlike most other market indexes, the Dow Jones Industrial Average is a "price weighted" index, which means stocks with a higher price (e.g., Apple) have greater impact than lower-priced stocks (e.g., Cisco).

So, taking a look at the woulda, shoulda, coulda, Bespoke Investment Group recalculated where the Dow would be if Apple was added to the index in 2009 instead of Cisco. They discovered that instead of the Dow being in the 12,800 range last week, it hypothetically would have been near 14,600 – an all-time record high.

Notice how one stock could have made nearly a 2,000 point difference in the Dow index in less than three years. Of course, the reverse is also true. A stock could have been added to the Dow in 2009 and gone down the last couple years and taken the Dow down with it.

Here's the point. We tend to think of indexes are representing "the market," but, in reality, they represent the *keepers of the indexes representation of the market*. There's human intervention in some of these indexes and that could greatly influence their performance.

In the end, the only index that matters is your index – the one that measures your progress toward reaching your goals. That's the index we try to beat.

Weekly Focus – Think About It

"One must maintain a little bit of summer, even in the middle of winter."

-- *Henry David Thoreau, author, poet, philosopher*

Best regards,

Hill Financial Group

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 Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.
* The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
* Commentary prepared by PEAK.
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