

STIFEL NICOLAUS

The Mark and Jason Group

Weekly Market Update

Week of November 08, 2010

THE MARKETS:

Republicans have seized control of the House and increased their presence in the Senate. How will this shift in power affect investors? We can only speculate. Thankfully, we aren't completely in the dark when speculating, as history provides some clues. While we cannot possibly discuss the potential impact on every type of investment in this brief commentary, let's focus on two; stocks and bonds.

STOCKS: It is commonly held that Republicans are "business friendly", and thus good for the stock market when they are the controlling party, but there is no solid data to back this up. Additionally, stock returns in years when power is split between the White House and Congress show no clear pattern. Some historical averages however, are interesting to note. Since 1945, the Standard and Poor's 500 index has gained 4% in years when Congress was split between parties, 8% when Congress was controlled by one party but the White House another, and 11% when a single party was in control of Washington.¹ Also noteworthy though, is an observation made by the Wall Street Journal while commenting on the future of the stock market in light of recent election results: "Watch out for anyone who tells you "divided government is good for the stock market. The historical basis for this – such as data since 1949 via the Stock Trader's Almanac – is meager. You can't extrapolate universal rules from such a small amount of data."²

BONDS: Two months ago, the GOP issued their 48-page *Pledge to America*.³ In it, they laid a plan for trillions in tax cuts, but few intentions to cut spending. Where bonds are concerned, if taxes are cut and deficits rise, the government will likely issue more bonds. The result could be a depression in prices and an undermining of confidence in federal finances. While this scenario wouldn't be so bad if bonds were already cheap, it is a concern when bond prices are inflated as they are right now.

One thing is certain – 2011 will be an interesting year. The President's party no longer has control of Congress. It will be the second year of a slow economic recovery, and one year before the next presidential election. With so many economic and policy issues remaining uncertain, the way politicians handle their responsibilities will be closely scrutinized.

In summary, it is important to remember that when it comes to investing (and politics for that matter), forecasting the future is impossible. At best we can speculate calculatedly. As your financial professionals, it is our job to stay alert to critical changes that could impact your portfolio, and to make necessary adjustments so you can stay on track with your long-term goals. You could say that's our *Pledge to You*.

ECONOMIC CALENDAR:⁴

Tuesday – Redbook

Wednesday – International Trade, Jobless Claims, EIA Natural Gas Report, EIA Petroleum Status Report, Treasury Budget

Thursday – U.S. Holiday – Veterans Day

Friday – Consumer Sentiment

Data as of 11/05/2010	1-Week	Y-T-D	1-Year	5-Year	10-Year
Standard & Poor's 500	3.60	9.93	14.9	0.09	-1.41
Dow	2.93	9.74	14.4	1.73	0.58
NASDAQ	2.85	13.6	22.5	3.78	-2.53
MSCI EAFE	3.84	5.74	8.16	1.09	0.86
10-year Treasury Note (Yield Only)	2.61	N/A	3.53	4.66	5.80

Notes: All index returns exclude reinvested dividends, and the 5-year and 10-year returns are annualized.

Sources: Yahoo! Finance, MSCI Barra. Past performance is no guarantee of future results.

Indices are unmanaged and cannot be invested into directly. NA means not available.

HEADLINES:

Government-controlled mortgage buyer Fannie Mae is asking for \$2.5 billion in additional federal aid after posting a narrower loss in the third quarter. Fannie Mae also said Friday it was likely that the market disarray and suspension of foreclosures due to big lenders' problems with flawed documents will have a negative impact on the delinquency rates of its loans, its expenses and foreclosure timelines.⁵

U.S. securities regulators are close to approving a plan to ensure markets remain liquid even in times of crisis, the chairman of the Securities and Exchange Commission said on Friday. At a meeting to discuss the May "flash crash" that sent the Dow Jones industrial average into a brief 700-point freefall, SEC chief Mary Schapiro and other regulators were zeroing in on new rules to prevent another uncontrollable market plunge.⁶

MSNBC host Keith Olbermann was suspended indefinitely without pay for making political donations in violation of the channel's policies. "I became aware of Keith's political contributions late last night," Phil Griffin, president of MSNBC, said today in an

e-mail. "Mindful of NBC News policy and standards, I have suspended him indefinitely without pay."⁷

Friday's Labor Department report showed that the United States economy added 151,000 jobs in October. It was certainly a welcome change after four months of job losses but not strong enough to make a dent in unemployment. Nearly 15 million people are still out of work, and the unemployment rate remains at 9.6 percent.⁸

QUOTE OF THE WEEK:

"Don't let what you can't do stop you from doing what you can do." - John Wooden

RECIPE OF THE WEEK:

Triple Cherry Trifle

From Better Homes and Gardens



Red and yellow sweet cherries star in this dessert favorite, layered with custard, almonds and pound cake and topped with billowy whipped cream.

Ingredients:

- 3 beaten eggs
- 2 cups milk, half-and-half, or light cream
- 1/4 cup sugar
- 1 teaspoon vanilla
- 1 10-3/4-ounce loaf frozen pound cake, thawed
- 1/4 cup cherry preserves
- 3 tablespoons cherry liqueur or unsweetened cherry or orange juice
- 2 cups halved and pitted fresh dark and/or light sweet cherries
- 2 tablespoons toasted sliced almonds
- 1/2 cup whipping cream
- 1 tablespoon sugar

1/2 teaspoon vanilla
Fresh mint (optional)

Directions:

1. For custard, in a heavy medium saucepan combine eggs, milk or cream, and 1/4 cup sugar. Cook and stir over medium heat until mixture just coats a metal spoon. Remove from heat. Stir in the 1 teaspoon vanilla. Quickly cool by placing the saucepan in a sink or bowl of ice water for 1 to 2 minutes, stirring constantly. Cover the surface with clear plastic wrap; chill in the refrigerator for 2 hours.
2. Cut cake into 1/2-inch cubes (you should have about 5 cups).
3. In 8 dessert dishes or a 1-1/2-quart bowl layer half of the preserves, cake, and liqueur or juice. Dot with remaining preserves. Top with half of the cherries, almonds, and custard. Repeat layers without preserves. Cover and chill in the refrigerator for 3 to 24 hours. Chill a medium mixing bowl and beaters of an electric mixer.
4. Before serving, in the chilled bowl combine whipping cream, 1 tablespoon sugar, and 1/2 teaspoon vanilla; beat with an electric mixer on medium speed until soft peaks form. Top trifle with whipped cream. If desired, garnish with mint. Makes 8 servings.

Make-Ahead Tip:

Prepare and layer trifle as above. Cover and chill in the refrigerator for up to 24 hours. Just before serving, whip the cream and top trifle.

GOLF TIP OF THE WEEK:

Playing in Windy Weather

While hitting in windy conditions, try to control your ball flight by keeping the ball on a flatter trajectory. The following things do NOT work:

- Hitting the ball harder than normal
- Moving the ball back in your stance
- Closing the face of the club

Instead, try to swing at 75% or 80% of your normal swing rhythm and pace. This will allow you to make a better swing, hit a more solid shot, and will reduce the amount of spin on the ball. Spin makes the ball rise – something you don't want in windy conditions.

Share the Wealth of Knowledge!

Please share this market update with family, friends, or colleagues. If you would like us to add them to our list, simply click on the "Forward email" link below. We love being introduced!.

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Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

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 average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq. The DJIA was invented by Charles Dow back in 1896.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia.

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.

Google 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.

Consult your financial professional before making any investment decision.

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¹ <http://www.consumeraffairs.com/news04/2010/11/what-does-the-new-2011-congress-mean-for-investors.html>

² <http://finance.yahoo.com/banking-budgeting/article/111233/what-new-congress-means-for-markets>

³ <http://pledge.gop.gov/resources/library/documents/solutions/a-pledge-to-america.pdf>

⁴ <http://www.econoday.com/>

⁵ <http://finance.yahoo.com/news/Fannie-Mae-asks-for-25B-in-apf-75205045.html>

⁶ <http://finance.yahoo.com/news/US-eyes-new-rules-for-market-rb-2460999336.html>

⁷ <http://finance.yahoo.com/news/MSNBCs-Olbermann-Suspended-bloomberg-3855097044.html>

⁸ <http://www.nytimes.com/2010/11/06/business/economy/06jobs.html?src=mv>