



## June 2007 - Market Insights

By John Rhoads

### New Market Highs

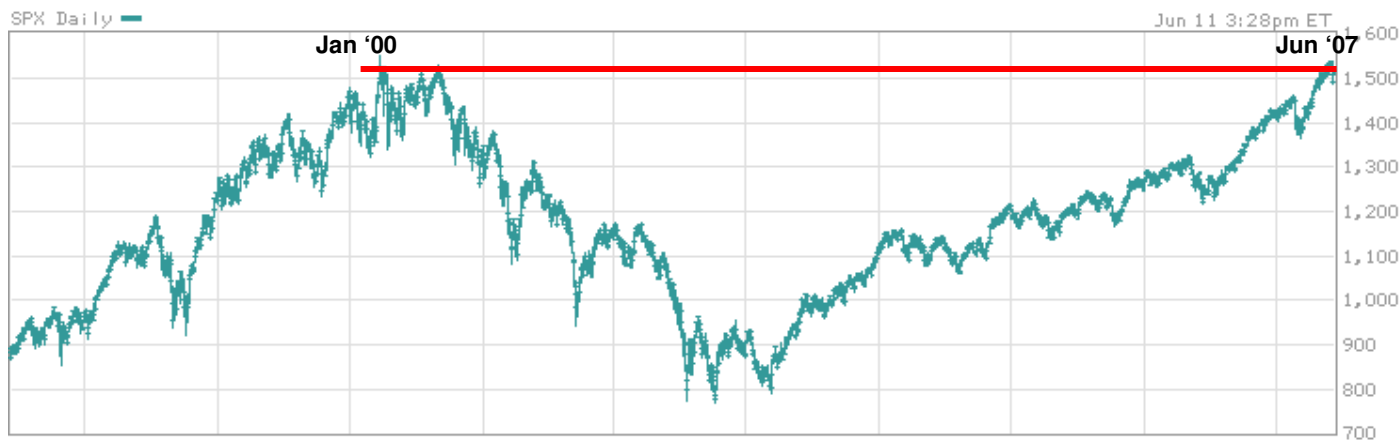
What does it mean when the media reports that the financial markets close at all time highs? I am asked this question frequently as our clients seek the maximum amount of gain possible from their investments.

There is often the perception that they may have been left behind or even missed something. Let me explain what is happening. The media is seeking attention getting headlines as they try to fill the 24 hour news programs on their multiple channels. A very exciting headline is **“The S&P 500 reached its all time high today”**. In fact one of the many financial channels puts a red, flashing, breaking news banner across the top of your TV screen every time historic numbers are happening. It is very hard not to get caught up with all the hype. One thing that is missing when a new high is hit is an explanation with some perspective for the viewer, reader, or listener of the news.

Let's take the headline **“The S&P 500 reached its all time high today”** and try to explain it. This headline simply means that average\* of the 500 stocks that make up the Standard & Poor's 500 index of stocks reached at least 1 point above the all time high of that average. This could mean one of many things. For example 1) The close of the market later in the day was less than the high during the day, thus no new record was actually obtained. 2) That only a handful of the 500 stocks were actually up, thus driving the average up but not really creating a broad market advance.

What is misleading about this approach is not being told the date when the previous high was reached. A case in point was the recent new high in this index. The previous high in the S&P was way back in the year 2000 (over 7 years ago). That means if you had bought the stocks then and held them you would only now after 7 years be back to even! Now that's what I call perspective. It is worth noting that our models hit new highs very shortly after the year 2000 and have continued to grow since then! In other words, the S&P FINALLY has gotten back to even, but has yet to catch up. It's also been my experience that very few investors have the stomach to hold bad stocks for 7 years and usually end up selling them for losses. So the next time you see the **red flashing lights** do as Paul Harvey says and look at the “rest of the story”. That's my perspective for this month.

Thanks for your business and your trust. Please call us with any questions you might have about the markets. We are available to you.



\* Capitalization Weighted Average (Large companies have a bigger influence on the Index).

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