

## The Economy

The October edition of the Blue Chip Economic Indicators survey revealed that those economists polled expect the U.S. GDP growth rate to be an annualized 2.4% in Q4'10. Brian Wesbury, Chief Economist at First Trust Advisors L.P., is more bullish and sees growth coming in at 5.0%. The survey is looking for 2.5% growth in 2011, compared to 4.0% for Wesbury. A recent report released from the Federal Reserve Bank of New York showed that the amount of loans to small businesses declined from \$710 billion in Q2'08 (recession) to under \$670 billion in Q1'10 (recovery). More than 75% of small businesses that applied for a loan during the first half of 2010 received only a portion or none of the credit they sought, according to CNNMoney.com.

<b>Consumer Confidence</b> <b>50.2</b> (Oct) 48.5 (Sep)	<b>Crude Oil (Mo.-End)</b> <b>\$81.43</b> (Oct) \$79.97 (Sep)	<b>Personal Spending</b> <b>0.2%</b> (Sep) Aug was 0.4%	<b>ISM Manufacturing</b> <b>56.9</b> (Oct) 54.4 (Sep)	<b>ISM Non-Manufacturing</b> <b>54.3</b> (Oct) 53.2 (Sep)
<b>Gold (Mo.-End)</b> <b>\$1357.60</b> (Oct) \$1307.80 (Sep)	<b>Natural Gas (Mo.-End)</b> <b>\$4.04</b> (Oct) \$3.87 (Sep)	<b>Factory Orders</b> <b>2.1%</b> (Sep) Aug was -0.5%	<b>New Home Sales</b> <b>307,000</b> (Sep) 288,000 (Aug)	<b>Existing Home Sales</b> <b>4.53M</b> (Sep) 4.13M (Aug)

## The Stock Market

### Indices (Source: Bloomberg)

	Oct	12-mo.
S&P 500	3.8%	16.5%
DJIA	3.2%	17.6%
NASDAQ 100	6.4%	28.3%
S&P 400	3.5%	27.6%
Russell 2000	4.1%	26.6%
Russell 3000	3.9%	18.4%
MSCI World (ex U.S.) (USD)	3.6%	10.3%
MSCI Emerging Markets (USD)	2.9%	23.7%

### Growth/Value (Source: Bloomberg)

	Oct	12-mo.
S&P 500 Citigroup Growth	5.0%	17.6%
S&P 500 Citigroup Value	2.6%	15.6%
S&P Midcap 400/Citigroup Growth	3.9%	29.7%
S&P Midcap 400/Citigroup Value	3.0%	25.9%
Russell 2000 Growth	4.3%	28.7%
Russell 2000 Value	3.9%	24.5%

One hundred and seven out of the 134 subsectors (79.9%) that comprise the S&P 500 posted a gain in October, down from 133 last month. Materials was the top performing major sector, up 6.7%, according to S&P. In October, the dividend-payers (368) in the S&P 500 (equal weight) posted a total return of 3.41%, vs. 3.83% for the non-payers (132), according to Standard & Poor's. Year-to-date, the payers were up 9.73%, vs. a gain of 7.83% for the non-payers. For the 12-month period ended October, payers were up 20.57%, vs. a gain of 21.28% for the non-payers. The number of dividend increases year-to-date totaled 191, up from 119 increases a year ago. Three companies decreased their dividends, down from 65 a year ago. Investment Company Institute data shows that investors pulled an estimated \$42 billion from U.S. equity funds in Q3'10 despite the fact that the S&P 500 posted a gain of 11.30%, according to CNNMoney.com. The average annual return on the index from 1926-2009 was 9.8%, according to data from Ibbotson Associates. Investors have redeemed \$53 billion from U.S. equity funds since the "flash crash" on May 6. Equity sales in the U.S. are running at a five-year low, according to Bloomberg. Wall Street underwriters earned \$3.73 billion from IPOs and other equity offerings in the first three quarters of '10, down 17% from a year ago. Equity offerings totaled \$88.6B, compared to \$861B in bond sales.

<b>U.S. Dollar (U.S. Trade-Weighted Basket)</b> <b>-1.9%</b> (Oct) -2.5% (2010) \$ was down 5.9% in '09	<b>CBOE Total Equity Options (# of contracts in millions)</b> Oct: <b>48.1</b> (+23.0%) Sep: 39.1 (+1.6%) Record 7/08: 67.2 million	<b>Short Interest (NYSE)</b> Oct 15: <b>14.06B</b> (-2.1%) Sep 15: 14.36B (+4.4%) Record 7/08: 18.61 billion shares	<b>VIX Volatility Index (S&amp;P 500)</b> <b>21.20</b> (10/29) 23.70 (9/30) Record 11/20/08: 80.86
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## The Bond Market

### Index (Source: Barclays)

	Oct	12-Mo.	Yield
U.S. Treasury: Intermediate	0.34%	6.69%	1.03%
GNMA 30 Year	1.08%	7.23%	3.06%
Municipal Bond (22+)	-0.24%	10.03%	4.70%
U.S. Aggregate	0.36%	8.01%	2.45%
Intermediate Corporate	0.71%	11.29%	2.88%
U.S. Corporate High Yield	2.58%	19.35%	7.28%
Global Aggregate	1.26%	6.89%	2.33%
Global Emerging Markets	1.99%	16.00%	5.15%

The bull market in bonds may have gotten a gift on November 3<sup>rd</sup> thanks to the Federal Reserve's QE2 initiative. The Fed announced it intends to buy an additional \$600 billion worth of Treasuries – through mid-2011 – in an effort to keep interest rates low. It comes out to about \$75 billion per month. So no rate hikes for the foreseeable future. In addition to the extra quantitative easing, we continue to see signs that the recovery is taking hold. For example, the default rate (based on # of issuers) for senior loans (speculative-grade) plunged from 4.53% in September to 2.28% in October, according to Standard & Poor's LCD. As the returns in the chart indicate, investors continue to exploit the good news via high yield corporates. The combination of low rates, a low default rate and strong corporate earnings has led to robust returns.

Key Rates as of October 29		Key Yield Spread		2010 Debt Issuance through September (Source: Thomson Reuters)		
Fed Funds	0-0.25%	The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Bond was 506 basis points on 10/29/10, down from 561 on 9/30/10. It was 665 on 10/30/09. (Source: Bloomberg)		Debt Category	\$ Amount	% change over '09
2-Yr. T-Note	0.34%			Treasury	\$1.77 Trillion	+12.7%
10-Yr. T-Bond	2.60%			Corporate	\$753.4 Billion	+9.4%
30-Yr. Mortgage	4.35%			Convertible	\$23.5 Billion	+13.1%
Bond Buyer 40	4.93%			Asset-Backed	\$81.9 Billion	-30.3%
(Source: Bloomberg)				Municipal	\$298.1 Billion	+3.2%

Equity funds reported net cash outflows totaling \$11.2 billion in 9/10, vs. \$16.5 billion of outflows in 8/10, according to the Investment Company Institute. Bond fund inflows totaled \$26.5 billion, vs. \$30.8 billion of inflows in 8/10. Money Market fund outflows totaled \$32.3 billion, vs. \$19.1 billion of inflows in 8/10. Y-T-D through September, equity funds reported net outflows totaling \$29.3 billion, vs. \$243.0 billion of inflows for bond funds and \$528.7 billion of outflows for MMFs.

Index	10-Yr. High Value	Date	10-Yr. Low Value	Date	Month-End Value	% Off High Value	YTD Return (USD)	Month-End Yield
S&P 500	1565.15	10/09/07	676.53	03/09/09	1183.26	-24.40%	7.84%	1.94%
S&P 500/Citigroup Growth	811.45	11/02/00	363.99	03/09/09	625.49	-22.92%	8.83%	1.54%
S&P 500/Citigroup Value	836.19	07/13/07	307.16	03/09/09	550.37	-34.18%	6.85%	2.35%
S&P 400	926.23	07/13/07	372.88	10/09/02	829.13	-10.48%	15.42%	1.37%
S&P 400/Citigroup Growth	383.70	06/05/08	162.27	10/09/02	369.58	-3.68%	18.45%	0.81%
S&P 400/Citigroup Value	361.18	06/04/07	135.55	10/09/02	292.32	-19.07%	12.52%	1.95%
S&P 100	756.30	11/07/00	322.13	03/09/09	533.08	-29.51%	5.57%	2.09%
DJIA	14164.53	10/09/07	6547.05	03/09/09	11118.49	-21.50%	8.96%	2.54%
NASDAQ 100	3321.91	11/03/00	804.64	10/07/02	2124.45	-36.05%	14.83%	0.81%
Russell 2000	855.77	07/13/07	327.04	10/09/02	703.35	-17.81%	13.59%	1.31%
Russell 2000 Growth	455.25	10/10/07	169.69	10/09/02	392.68	-13.74%	14.97%	0.69%
Russell 2000 Value	1276.63	06/04/07	469.32	03/09/09	956.45	-25.08%	12.11%	1.96%
Russell 3000	907.58	10/09/07	389.61	03/09/09	700.37	-22.83%	8.88%	1.82%
MSCI World x U.S. (USD)	5379.90	10/31/07	1636.59	03/12/03	4029.24	-25.11%	5.29%	N/A
MSCI Emerging Markets (USD)	473.35	10/29/07	75.12	09/21/01	418.97	-11.49%	13.97%	N/A
Bovespa/Brazil (USD)	44638.24	05/19/08	2160.80	10/16/02	41557.86	-6.90%	5.45%	3.24%
RTS/Russia (USD)	2487.92	05/19/08	131.02	01/03/01	1587.14	-36.21%	12.30%	1.57%
Bombay SE 500/India (USD)	226.04	01/07/08	16.50	09/21/01	180.90	-19.97%	24.46%	1.14%
Shanghai Composite/China (USD)	810.24	10/16/07	122.21	07/11/05	446.57	-44.88%	-5.37%	1.39%
KOSPI/South Korea (USD)	2.29	10/31/07	0.36	04/04/01	1.67	-27.00%	16.14%	1.30%
Hang Seng (USD)	4082.25	10/30/07	1078.13	04/25/03	2979.86	-27.00%	8.69%	2.70%
MSCI Euro (USD)	1988.53	10/31/07	598.84	03/12/03	1207.71	-39.27%	-0.74%	3.62%
S&P Consumer Discretionary	318.54	06/04/07	125.72	03/09/09	277.50	-12.88%	19.47%	1.39%
S&P Consumer Staples	306.61	12/10/07	182.72	03/10/03	296.38	-3.34%	10.78%	3.19%
S&P Energy	668.81	05/20/08	163.83	07/23/02	442.59	-33.82%	4.77%	2.11%
S&P Utilities	223.91	12/10/07	77.27	10/09/02	160.85	-28.16%	5.50%	4.27%
S&P Financials	509.55	02/20/07	81.74	03/06/09	195.83	-61.57%	1.95%	1.20%
S&P Banks	414.38	02/20/07	49.02	03/05/09	128.43	-69.01%	3.25%	1.02%
FTSE NAREIT Equity REITs	676.54	02/07/07	163.57	03/06/09	419.01	-38.07%	24.70%	3.46%
S&P Health Care	444.98	12/28/00	252.84	03/05/09	361.00	-18.87%	1.40%	2.13%
S&P Pharmaceuticals	496.83	12/28/00	214.50	03/03/09	303.41	-38.93%	1.98%	3.61%
NYSE Arca Biotechnology	1253.57	03/23/10	280.09	07/10/02	1165.15	-7.05%	23.67%	1.37%
S&P Information Technology	688.58	11/03/00	172.88	10/09/02	391.58	-43.13%	6.43%	0.86%
Philadelphia Semiconductor	745.77	11/06/00	171.32	11/20/08	372.64	-50.03%	4.65%	1.12%
S&P Telecom Services	246.91	10/31/00	79.00	09/30/02	121.40	-50.83%	11.97%	5.43%
S&P Industrials	381.16	10/09/07	132.83	03/09/09	277.81	-27.11%	16.32%	2.08%
S&P Materials	285.91	05/16/08	102.55	10/09/02	215.50	-24.63%	9.49%	1.74%
Philadelphia Gold & Silver	209.64	10/13/10	41.85	11/17/00	204.30	-2.55%	22.21%	0.69%
Reuters/Jefferies CRB	473.52	07/02/08	183.52	10/22/01	300.67	-36.50%	6.10%	N/A
Merrill Lynch Perpetual Preferred	197.85	05/08/07	51.79	03/09/09	153.92	-22.20%	14.22%	7.10%
Merrill Lynch High Yield Master II	259.36	10/29/10	106.67	10/10/02	259.36	0.00%	14.29%	7.66%