

The Economy

The Blue Chip Economic Indicators survey of 51 economists in November revealed a Gross Domestic Product forecast of 2.5% for 2011. Brian Wesbury, Chief Economist at First Trust Advisors, is targeting 4.0%. The S&P 500 is predicted to rise 9% from its 12/27 close of 1258 to 1374 in 2011, according to the average of 11 equity strategists in a Bloomberg News survey. David Kostin, strategist at Goldman Sachs and the most accurate of the strategists surveyed in 2010, believes that strong sales growth will fuel a 15% rally through end of 2011. The estimated earnings growth for the S&P 500 is 13.3% for 2011, according to Standard & Poor's. Wesbury is more bullish and sees the S&P 500 reaching 1575 in 2011, up 25% from its 1258 close on 12/27.

Consumer Confidence 52.5 (Dec) 54.1 (Nov)	Crude Oil (Mo.-End) \$91.38 (Dec) \$84.11 (Nov)	Personal Spending 0.4% (Nov) Oct was 0.4%	ISM Manufacturing 57.0 (Dec) 56.6 (Nov)	ISM Non-Manufacturing 57.1 (Dec) 55.0 (Nov)
Gold (Mo.-End) \$1421.40 (Dec) \$1385.00 (Nov)	Natural Gas (Mo.-End) \$4.41 (Dec) \$4.18 (Nov)	Factory Orders 0.7% (Nov) Oct was -0.9%	New Home Sales 290,000 (Nov) 283,000 (Oct)	Existing Home Sales 4.43M (Oct) 4.53M (Sep)

The Stock Market

Indices (Source: Bloomberg)

	Dec	2010
S&P 500	6.7%	15.1%
DJIA	5.3%	14.1%
NASDAQ 100	4.8%	20.2%
S&P 400	6.6%	26.7%
Russell 2000	7.9%	26.9%
Russell 3000	6.8%	17.0%
MSCI World (ex U.S.) (USD)	8.1%	9.0%
MSCI Emerging Markets (USD)	7.1%	18.9%

Growth/Value (Source: Bloomberg)

	Dec	2010
S&P 500 Citigroup Growth	5.2%	15.1%
S&P 500 Citigroup Value	8.3%	15.2%
S&P Midcap 400/Citigroup Growth	5.5%	30.7%
S&P Midcap 400/Citigroup Value	7.6%	22.8%
Russell 2000 Growth	7.6%	29.1%
Russell 2000 Value	8.3%	24.5%

One hundred and twenty-five out of the 133 subsectors (94%) that comprise the S&P 500 posted a gain in December, up from 69 last month, according to S&P. Financials was the top performing major sector, up 10.8%. In December, the dividend-payers (373) in the S&P 500 (equal weight) posted a total return of 7.37%, vs. 6.73% for the non-payers (127), according to Standard & Poor's. In 2010, the payers were up 18.75%, vs. a gain of 16.24% for the non-payers. The number of dividend increases in 2010 totaled 243, up from 151 increases a year ago. Thirteen companies initiated a dividend, up from 6 a year ago. Four companies decreased their dividends, down from 68 a year ago. One company suspended its dividend, down from 10 a year ago. From 2000-2010, the dividend-paying stocks in the S&P 500 (equal weight) outperformed the non-payers in 9 out of the 11 calendar years, according to data from S&P. The only two years they failed to do so were 2003 and 2009 – both of which were the first year following the end of the last two bear markets. The current bull market in the S&P 500 has lasted 665 calendar days, according to Bespoke Investment Group. The bear market that preceded it lasted 517 calendar days. Since 1928, the average bull market has lasted 915 calendar days, vs. 310 for the average bear market. Since 1940, the average bull has lasted 1,600 calendar days.

U.S. Dollar (U.S. Trade-Weighted Basket) -2.1% (Dec thru 30 th) -1.1% ('10 thru 12/30) \$ was down 5.9% in '09	CBOE Total Equity Options (# of contracts in millions) Dec: 46.3 (-4.9%) Nov: 48.7 (+1.2%) Record 7/08: 67.2 million	Short Interest (NYSE) Dec 15: 13.3B (-3.6%) Nov 15: 13.8B (-2.1%) Record 7/08: 18.61 billion shares	VIX Volatility Index (S&P 500) 17.75 (12/31) 23.54 (11/30) Record 11/20/08: 80.86
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The Bond Market

Index (Source: Barclays)

	Dec	2010	Yield
U.S. Treasury: Intermediate	-1.51%	5.29%	1.55%
GNMA 30 Year	-0.62%	6.71%	3.60%
Municipal Bond (22+)	-3.46%	1.12%	5.57%
U.S. Aggregate	-1.08%	6.54%	2.97%
Intermediate Corporate	-1.04%	8.27%	3.39%
U.S. Corporate High Yield	1.81%	15.12%	7.51%
Global Aggregate	1.31%	5.54%	2.72%
Global Emerging Markets	0.01%	10.93%	5.70%

Speculative-grade debt led the bond market higher in '10. The two best performing groups by far were High Yield and Emerging Markets. Cyclical debt outperformed investment-grade debt in '09 as well, and by a bigger margin. As the chart indicates, yields on speculative-grade debt have recovered from the 2008 credit crunch and now stand at levels closer to historical norms. The good news is that while we are beginning to see pockets of inflation in the U.S. economy it has yet to surface in the broader gauges, such as the CPI. The headline CPI rate remains just above 1%. The faster growing emerging markets, like China and Brazil, are already raising interest rates to curb inflation. The yield on the 10-year T-Bond has risen of late despite the Fed's QE2 initiative, but is in line with its 3-year average of 3.36%, according to Bloomberg.

Key Rates as of December 30		Key Yield Spread		2010 Debt Issuance through November		
				(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 457 basis points on 12/31/10, down from 534 on 11/30/10. It was 538 on 12/31/09. (Source: Bloomberg)		Debt Category	\$ Amount	% change over '09
2-Yr. T-Note	0.60%			Treasury	\$2.13 Trillion	+13.5%
10-Yr. T-Bond	3.30%			Corporate	\$949.8 Billion	+12.1%
30-Yr. Mortgage	4.99%			Convertible	\$26.9 Billion	-4.2%
Bond Buyer 40	5.51%			Asset-Backed	\$110.9 Billion	-20.9%
(Source: Bloomberg)				Municipal	\$389.2 Billion	+4.2%

Equity funds reported net cash inflows totaling \$390.0 million in 11/10, vs. \$24.0 million of outflows in 10/10, according to the Investment Company Institute. Bond fund outflows totaled \$875.0 million, vs. \$24.0 billion of inflows in 10/10. Money Market fund inflows totaled \$25.0 billion, vs. \$11.2 billion of outflows in 10/10. Y-T-D through November, equity funds reported net outflows totaling \$29.6 billion, vs. \$266.4 billion of inflows for bond funds and \$514.8 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	1257.64	-19.65%	15.06%	1.87%
S&P 500/Citigroup Growth	730.83	10/12/07	363.99	03/09/09	659.13	-9.81%	15.09%	1.68%
S&P 500/Citigroup Value	836.19	07/13/07	307.16	03/09/09	590.22	-29.42%	15.13%	2.07%
S&P 400	926.23	07/13/07	372.88	10/09/02	907.25	-2.05%	26.64%	1.32%
S&P 400/Citigroup Growth	410.05	12/21/10	162.27	10/09/02	406.80	-0.79%	30.65%	0.81%
S&P 400/Citigroup Value	361.18	06/04/07	135.55	10/09/02	317.75	-12.02%	22.80%	1.82%
S&P 100	729.79	10/09/07	322.13	03/09/09	565.90	-22.46%	12.51%	1.99%
DJIA	14164.53	10/09/07	6547.05	03/09/09	11577.51	-18.26%	14.06%	2.48%
NASDAQ 100	2730.05	01/23/01	804.64	10/07/02	2217.86	-18.76%	20.15%	0.81%
Russell 2000	855.77	07/13/07	327.04	10/09/02	783.65	-8.43%	26.86%	1.29%
Russell 2000 Growth	455.25	10/10/07	169.69	10/09/02	440.48	-3.24%	29.09%	0.71%
Russell 2000 Value	1276.63	06/04/07	469.32	03/09/09	1058.10	-17.12%	24.51%	1.90%
Russell 3000	907.58	10/09/07	389.61	03/09/09	749.48	-17.42%	16.93%	1.76%
MSCI World x U.S. (USD)	5379.90	10/31/07	1636.59	03/12/03	4169.31	-22.50%	8.95%	N/A
MSCI Emerging Markets (USD)	473.35	10/29/07	75.12	09/21/01	437.02	-7.68%	18.88%	N/A
Bovespa/Brazil (USD)	44638.24	05/19/08	2160.80	10/16/02	41614.51	-6.77%	5.59%	3.43%
RTS/Russia (USD)	2487.92	05/19/08	131.02	01/03/01	1772.53	-28.75%	25.47%	1.54%
Bombay SE 500/India (USD)	226.04	01/07/08	16.50	09/21/01	178.08	-21.22%	22.63%	1.17%
Shanghai Composite/China (USD)	810.24	10/16/07	122.21	07/11/05	425.02	-47.54%	-9.93%	1.48%
KOSPI/South Korea (USD)	2.29	10/31/07	0.36	04/04/01	1.81	-21.16%	25.43%	1.20%
Hang Seng (USD)	4082.25	10/30/07	1078.13	04/25/03	2963.48	-27.41%	8.32%	2.72%
MSCI Euro (USD)	1988.53	10/31/07	598.84	03/12/03	1149.61	-42.19%	-5.08%	3.65%
S&P Consumer Discretionary	318.54	06/04/07	125.72	03/09/09	295.54	-7.22%	27.85%	1.46%
S&P Consumer Staples	306.61	12/10/07	182.72	03/10/03	303.58	-0.99%	14.12%	3.16%
S&P Energy	668.81	05/20/08	163.83	07/23/02	506.75	-24.23%	20.46%	1.81%
S&P Utilities	223.91	12/10/07	77.27	10/09/02	159.34	-28.84%	5.46%	4.35%
S&P Financials	509.55	02/20/07	81.74	03/06/09	214.77	-57.85%	12.18%	1.15%
S&P Banks	414.38	02/20/07	49.02	03/05/09	148.80	-64.09%	19.84%	0.90%
FTSE NAREIT Equity REITs	676.54	02/07/07	163.57	03/06/09	426.55	-36.95%	27.92%	3.63%
S&P Health Care	434.87	01/02/01	252.84	03/05/09	364.78	-16.12%	2.90%	2.08%
S&P Pharmaceuticals	488.56	01/02/01	214.50	03/03/09	297.62	-39.08%	0.77%	3.58%
NYSE Arca Biotechnology	1321.05	12/27/10	280.09	07/10/02	1297.63	-1.77%	37.73%	1.23%
S&P Information Technology	582.65	01/24/01	172.88	10/09/02	404.55	-30.57%	10.22%	0.89%
Philadelphia Semiconductor	732.19	01/31/01	171.32	11/20/08	411.82	-43.76%	15.91%	1.10%
S&P Telecom Services	233.65	01/18/01	79.00	09/30/02	128.74	-44.90%	18.97%	5.11%
S&P Industrials	381.16	10/09/07	132.83	03/09/09	301.12	-21.00%	26.73%	1.98%
S&P Materials	285.91	05/16/08	102.55	10/09/02	239.61	-16.19%	22.33%	1.73%
Philadelphia Gold & Silver	228.76	12/06/10	45.82	02/14/01	226.58	-0.95%	35.94%	0.79%
Reuters/Jefferies CRB	473.52	07/02/08	183.52	10/22/01	332.80	-29.72%	17.44%	N/A
Merrill Lynch Perpetual Preferred	197.85	05/08/07	51.79	03/09/09	153.66	-22.34%	14.02%	7.24%
Merrill Lynch High Yield Master II	262.01	11/09/10	106.67	10/10/02	261.12	-0.34%	15.07%	7.87%