

## The Economy

Last month we predicted that the heat would be turned up on the Obama Administration with respect to the lack of significant job growth – and it has. President Obama is scheduled to deliver a speech on September 8<sup>th</sup> outlining his vision for a new jobs package. He has already tipped his hand that it will include infrastructure spending, but that approach is not new. It was part of his previous \$787 billion stimulus plan that featured “shovel ready” projects. The latest polls indicate that both he and the members of Congress are losing favor with Americans. In the latest NBC News/Wall Street Journal Poll, only 37% of those surveyed approve of the way President Obama is handling the economy. Dissatisfaction with Congress is at an all-time high (82% disapprove).

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|--|---|--|--|---|
| <b>Consumer Confidence</b><br><b>44.5</b> (Aug)<br>59.5 (Jul)      | <b>Crude Oil (Mo.-End)</b><br><b>\$88.81</b> (Aug)<br>\$95.70 (Jul) | <b>Personal Spending</b><br><b>0.8%</b> (Jul)<br>Jun was -0.2% | <b>ISM Manufacturing</b><br><b>50.6</b> (Aug)<br>50.9 (Jul)    | <b>ISM Non-Manufacturing</b><br><b>53.3</b> (Aug)<br>52.7 (Jul) |
| <b>Gold (Mo.-End)</b><br><b>\$1829.30</b> (Aug)<br>\$1628.30 (Jul) | <b>Natural Gas (Mo.-End)</b><br><b>\$4.05</b> (Aug)<br>\$4.15 (Jul) | <b>Factory Orders</b><br><b>2.4%</b> (Jul)<br>Jun was -0.8%    | <b>New Home Sales</b><br><b>298,000</b> (Jul)<br>312,000 (Jun) | <b>Existing Home Sales</b><br><b>4.67M</b> (Jul)<br>4.77M (Jun) |

## The Stock Market

| Indices (Source: Bloomberg)      | Aug   | 12-mo. | Twenty out of the 133 subsectors (15%) that comprise the S&P 500 posted a gain in August, down from 34 (26%) last month, according to S&P. Utilities was the top performing sector, up 2.3%. In August, the dividend-payers (389) in the S&P 500 (equal weight) posted a total return of -6.04%, vs. -7.69% for the non-payers (111), according to S&P. Y-T-D, the payers were down 2.26%, vs. a loss of 4.96% for the non-payers. For the 12-month period ended August '11, payers were up 16.79%, vs. a gain of 14.37% for the non-payers. The number of dividend increases y-t-d totaled 226, up from 165 a year ago. Seventeen companies initiated dividends, up from 10. Four dividends were cut, up from two. More than 20% of S&P 500 companies have P/Es in the single digits, according to SmartMoney.com. The forward-looking P/E on the index is 12.1. S&P's own earnings growth estimates for the S&P 500 are \$98.71 for 2011 and \$113.02 for 2012. The nonfinancial companies in the index hold more than \$1.1 trillion in cash and equivalents. That total stood at \$654 billion in 2008. U.S. companies are currently paying just 29% of their profits to shareholders as dividends, the lowest rate on record, according to Bank of America Merrill Lynch. Wall Street firms raised their earnings estimates on the S&P 500 for the 10 <sup>th</sup> consecutive quarter, according to Bloomberg. |
|----------------------------------|-------|--------|---|
| S&P 500                          | -5.4% | 18.5%  |   |
| DJIA                             | -4.0% | 19.0%  |   |
| NASDAQ 100                       | -5.0% | 27.9%  |   |
| S&P 400                          | -7.1% | 22.9%  |   |
| Russell 2000                     | -8.7% | 22.2%  |   |
| Russell 3000                     | -6.0% | 19.3%  |   |
| MSCI World (ex U.S.) (USD)       | -8.4% | 11.3%  |   |
| MSCI Emerging Markets (USD)      | -8.9% | 9.1%   |   |
| Growth/Value (Source: Bloomberg) | Aug   | 12-mo. |   |
| S&P 500 Growth                   | -4.8% | 23.7%  |   |
| S&P 500 Value                    | -6.2% | 13.4%  |   |
| S&P 400 Growth                   | -6.8% | 28.8%  |   |
| S&P 400 Value                    | -7.4% | 17.3%  |   |
| Russell 2000 Growth              | -8.6% | 27.5%  |   |
| Russell 2000 Value               | -8.8% | 16.8%  |   |

|  |   |   |  |
|--|---|---|--|
| <b>U.S. Dollar Index (DXY)</b><br><b>0.3%</b> (Aug)<br>-6.2% (2011)<br>\$ was down 1.1% in '10 | <b>CBOE Total Equity Options</b><br>(# of contracts in millions)<br>Aug: <b>49.4</b> (+34.4%)<br>Jul: 36.7 (-4.4%)<br>Record 7/08: 67.2 million | <b>Short Interest (NYSE)</b><br>Aug 15: <b>14.4B</b> (+7.5%)<br>July 15: 13.4B (-0.7%)<br>Record 7/08: 18.61 billion shares | <b>VIX Volatility Index (S&amp;P 500)</b><br><b>31.62</b> (8/31)<br>25.25 (7/29)<br>Record 11/20/08: 80.86 |
|--|---|---|--|

## The Bond Market

| Index (Source: Barclays)    | Aug    | 12-mo. | Yield | Investors have been spooked some by the U.S. downgrade as well as a considerable amount of soft economic data. The August returns referenced in the chart to the left indicate a flight to quality. The strong sell-off in high yield corporates obviously suggests an aversion to risk, but it is worth noting that these securities have enjoyed such a phenomenal run from the end of the bear market in stocks that profit taking was inevitable at some point. From 3/9/09-7/31/11, the Merrill Lynch High Yield Master II Index posted a cumulative total return of 96.4% (60 percentage points was price appreciation), just below the 100.6% return for the S&P 500, according to Bloomberg. The iShares 7-10 Year Treasury (IEF) posted a return of only 13.1% over that same span. The markets are at the mercy of the policymakers, both here and in Europe. |
|-----------------------------|--------|--------|-------|---|
| U.S. Treasury: Intermediate | 1.77%  | 3.91%  | 0.78% |   |
| GNMA 30 Year                | 1.64%  | 6.31%  | 3.10% |   |
| Municipal Bond (22+)        | 2.20%  | 1.84%  | 4.89% |   |
| U.S. Aggregate              | 1.46%  | 4.62%  | 2.39% |   |
| Intermediate Corporate      | -0.19% | 4.79%  | 3.04% |   |
| U.S. Corporate High Yield   | -4.00% | 8.39%  | 8.51% |   |
| Global Aggregate            | 1.27%  | 8.96%  | 2.44% |   |
| Global Emerging Markets     | -0.35% | 8.83%  | 5.58% |   |

| Key Rates as of August 31 |         | Key Yield Spread  |  | 2011 Debt Issuance Through July (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 642 basis points on 8/31/11, up from 475 on 7/29/11. It was 615 on 8/31/10. (Source: Bloomberg) |  | Debt Category   | \$ Amount       | % change over '10 |
| 2-Yr. T-Note              | 0.20%   |   |  | Treasury  | \$1.2 Trillion  | -9.3%             |
| 10-Yr. T-Bond             | 2.22%   |   |  | Corporate   | \$691.4 Billion | +30.5%            |
| 30-Yr. Mortgage           | 4.21%   |   |  | Convertible   | \$17.1 Billion  | -11.4%            |
| Bond Buyer 40             | 5.08%   |   |  | Asset-Backed  | \$74.6 Billion  | +11.7%            |
| (Source: Bloomberg)       |         |   |  | Municipal   | \$142.1 Billion | -39.3%            |

Equity funds reported net cash outflows totaling \$31.6 billion in 7/11, vs. \$22.9 billion of outflows in 6/11, according to the Investment Company Institute. Bond fund inflows totaled \$9.8 billion, vs. \$11.2 billion of inflows in 6/11. Money Market fund outflows totaled \$118.9 billion, vs. \$41.0 billion of outflows in 6/11. Y-T-D through July, equity funds reported net outflows totaling \$17.8 billion, vs. \$73.2 billion of inflows for bond funds and \$244.2 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 | 1218.89         | -22.12%          | -1.77%           | 2.15%           |
| S&P 500 Growth                     | 730.83            | 10/12/07 | 363.99           | 03/09/09 | 658.95          | -9.84%           | 1.14%            | 1.87%           |
| S&P 500 Value                      | 836.19            | 07/13/07 | 307.16           | 03/09/09 | 553.38          | -33.82%          | -4.78%           | 2.45%           |
| S&P 400                            | 1015.26           | 04/29/11 | 372.88           | 10/09/02 | 875.00          | -13.82%          | -2.72%           | 1.47%           |
| S&P 400 Growth                     | 465.69            | 07/07/11 | 162.27           | 10/09/02 | 404.60          | -13.12%          | -0.02%           | 0.88%           |
| S&P 400 Value                      | 361.18            | 06/04/07 | 135.55           | 10/09/02 | 297.22          | -17.71%          | -5.33%           | 2.07%           |
| S&P 100                            | 729.79            | 10/09/07 | 322.13           | 03/09/09 | 548.01          | -24.91%          | -1.69%           | 2.27%           |
| DJIA                               | 14164.53          | 10/09/07 | 6547.05          | 03/09/09 | 11613.53        | -18.01%          | 2.15%            | 2.66%           |
| NASDAQ 100                         | 2429.50           | 07/22/11 | 804.64           | 10/07/02 | 2241.01         | -7.76%           | 1.65%            | 1.07%           |
| Russell 2000                       | 865.29            | 04/29/11 | 327.04           | 10/09/02 | 726.81          | -16.00%          | -6.54%           | 1.66%           |
| Russell 2000 Growth                | 497.75            | 04/29/11 | 169.69           | 10/09/02 | 418.70          | -15.88%          | -4.60%           | 0.86%           |
| Russell 2000 Value                 | 1276.63           | 06/04/07 | 469.32           | 03/09/09 | 956.47          | -25.08%          | -8.52%           | 2.46%           |
| Russell 3000                       | 907.58            | 10/09/07 | 389.61           | 03/09/09 | 723.15          | -20.32%          | -2.32%           | 2.04%           |
| MSCI World x U.S. (USD)            | 5379.90           | 10/31/07 | 1636.59          | 03/12/03 | 3930.88         | -26.93%          | -5.72%           | N/A             |
| MSCI Emerging Markets (USD)        | 473.35            | 10/29/07 | 75.12            | 09/21/01 | 399.67          | -15.57%          | -8.55%           | N/A             |
| Bovespa/Brazil (USD)               | 44638.24          | 05/19/08 | 2160.80          | 10/16/02 | 35612.14        | -20.22%          | -14.42%          | 4.32%           |
| RTS/Russia (USD)                   | 2487.92           | 05/19/08 | 174.20           | 10/03/01 | 1702.28         | -31.58%          | -2.23%           | 2.36%           |
| Bombay SE 500/India (USD)          | 226.04            | 01/07/08 | 16.50            | 09/21/01 | 140.74          | -37.74%          | -20.10%          | 1.59%           |
| Shanghai Composite/China (USD)     | 810.24            | 10/16/07 | 122.21           | 07/11/05 | 402.52          | -50.32%          | -3.77%           | 1.91%           |
| KOSPI/South Korea (USD)            | 2.29              | 10/31/07 | 0.36             | 09/17/01 | 1.76            | -23.12%          | -2.48%           | 1.52%           |
| Hang Seng (USD)                    | 4082.25           | 10/30/07 | 1078.13          | 04/25/03 | 2637.41         | -35.39%          | -8.95%           | 3.16%           |
| MSCI Euro (USD)                    | 1988.53           | 10/31/07 | 598.84           | 03/12/03 | 1029.84         | -48.21%          | -7.38%           | 4.75%           |
| S&P Consumer Discretionary         | 328.81            | 07/07/11 | 125.72           | 03/09/09 | 296.14          | -9.94%           | 1.20%            | 1.64%           |
| S&P Consumer Staples               | 333.63            | 05/19/11 | 182.72           | 03/10/03 | 318.50          | -4.53%           | 6.94%            | 3.28%           |
| S&P Energy                         | 668.81            | 05/20/08 | 163.83           | 07/23/02 | 506.52          | -24.27%          | 1.30%            | 1.90%           |
| S&P Utilities                      | 223.91            | 12/10/07 | 77.27            | 10/09/02 | 170.98          | -23.64%          | 10.57%           | 4.24%           |
| S&P Financials                     | 509.55            | 02/20/07 | 81.74            | 03/06/09 | 179.83          | -64.71%          | -15.48%          | 1.70%           |
| S&P Banks                          | 414.38            | 02/20/07 | 49.02            | 03/05/09 | 120.71          | -70.87%          | -17.90%          | 1.77%           |
| FTSE NAREIT Equity REITs           | 676.54            | 02/07/07 | 163.57           | 03/06/09 | 440.09          | -34.95%          | 5.53%            | 3.65%           |
| S&P Health Care                    | 426.93            | 05/07/07 | 252.84           | 03/05/09 | 385.31          | -9.75%           | 7.26%            | 2.21%           |
| S&P Pharmaceuticals                | 442.40            | 11/26/01 | 214.50           | 03/03/09 | 313.55          | -29.13%          | 8.15%            | 3.66%           |
| NYSE Arca Biotechnology            | 1502.18           | 05/12/11 | 280.09           | 07/10/02 | 1194.24         | -20.50%          | -7.94%           | 0.03%           |
| S&P Information Technology         | 441.36            | 10/31/07 | 172.88           | 10/09/02 | 391.57          | -11.28%          | -2.49%           | 1.08%           |
| Philadelphia Semiconductor         | 637.94            | 03/08/02 | 171.32           | 11/20/08 | 355.79          | -44.23%          | -12.77%          | 1.39%           |
| S&P Telecom Services               | 189.14            | 10/02/01 | 79.00            | 09/30/02 | 123.68          | -34.61%          | -0.40%           | 5.49%           |
| S&P Industrials                    | 381.16            | 10/09/07 | 132.83           | 03/09/09 | 278.84          | -26.84%          | -6.02%           | 2.41%           |
| S&P Materials                      | 285.91            | 05/16/08 | 102.55           | 10/09/02 | 221.25          | -22.62%          | -6.38%           | 2.28%           |
| Philadelphia Gold & Silver         | 228.95            | 04/08/11 | 49.46            | 11/19/01 | 217.96          | -4.80%           | -2.90%           | 1.28%           |
| Reuters/Jefferies CRB              | 473.52            | 07/02/08 | 183.52           | 10/22/01 | 342.57          | -27.65%          | 2.94%            | N/A             |
| Merrill Lynch Perpetual Preferred  | 197.85            | 05/08/07 | 51.79            | 03/09/09 | 160.95          | -18.65%          | 4.75%            | 7.28%           |
| Merrill Lynch High Yield Master II | 277.73            | 07/26/11 | 106.67           | 10/10/02 | 266.25          | -4.13%           | 1.96%            | 8.64%           |