










The Economy

While the U.S. created 163,000 new jobs in July, the unemployment rate actually ticked up from 8.2% to 8.3%. Nonfarm payrolls were up in each of the past 22 months. A total of 3.36 million jobs were created over that span. The monthly average was 152,727, with the best showing coming in 1/12 (275,000). Prior to July, only 8 out of the 21 months registered nonfarm payroll numbers in excess of 163,000. We believe that taxes and job growth will continue to be two of the "hottest topics" between now and election day on November 6. The Republican National Convention is scheduled for August 27-30, while the Democrat's will meet September 3-6. It will be interesting to see which candidate delivers the most persuasive acceptance speech.

| | | | | |
|--|---|---|--|---|
| Consumer Confidence 65.9 (Jul) 62.0 (Jun)  | Crude Oil (Mo.-End) \$88.06 (Jul) \$84.96 (Jun)  | Personal Spending U 0.0% (Jun) N May was 0.0% C H. | ISM Manufacturing  49.8 (Jul) 49.7 (Jun) | ISM Non-Manufacturing  52.6 (Jul) 52.1 (Jun) |
| Gold (Mo.-End)  \$1610.50 (Jul) \$1604.20 (Jun) | Natural Gas (Mo.-End)  \$3.21 (Jul) \$2.82 (Jun) | Factory Orders  -0.5% (Jun) May was 0.7% | New Home Sales  350,000 (Jun) 369,000 (May) | Existing Home Sales  4.37M (Jun) 4.55M (May) |

The Stock Market

| | |
|---|---|
| Indices (Source: Bloomberg) S&P 500 1.4% Jul 9.1% 12-mo. DJIA 1.2% 10.1% NASDAQ 100 1.1% 13.1% S&P 400 0.0% 1.2% Russell 2000 -1.4% 0.2% Russell 3000 1.0% 7.3% MSCI World (ex U.S.) (USD) 1.3% -11.6% MSCI Emerging Markets (USD) 2.0% -13.9% | Sixty-eight out of the 132 subsectors (52%) that comprise the S&P 500 posted a gain in July, down from 108 (82%) last month, according to S&P. Telecommunication Services was the top performing sector, up 6.5%. In July, the dividend-payers (401) in the S&P 500 (equal weight) posted a total return of 0.59%, vs. -0.91% for the non-payers (99), according to Standard & Poor's. Year-to-date, the payers were up 7.79%, vs. a gain of 6.90% for the non-payers. For the 12-month period ended July, payers were up 5.07%, vs. a loss of 4.06% for the non-payers. The number of dividend increases y-t-d totaled 221, up from 209 a year ago. Five dividends were cut, up from two a year ago. Investors considering investing in equities, but still concerned about risk, should consider large-caps, in our opinion. Mid-Cap stocks (S&P 400) outperformed both large-caps (S&P 500) and small-caps (Russell 2000) for the 3-, 5-, 10-, 15- and 20-year periods ended 6/30/12. Small-Cap stocks (Russell 2000) also outperformed large-caps (S&P 500) for the 3-, 5-, 10-, 15- and 20-year periods ended 6/30/12. Large-Cap stocks, however, have outperformed both mid-caps and small-caps in July as well as over the past year (see chart). Large-Cap stocks are generally considered to be less risky than mid- and small-caps, and it appears as though large-caps may have assumed the leadership role in the market. |
| Growth/Value (Source: Bloomberg) S&P 500 Growth 1.8% Jul 10.4% 12-mo. S&P 500 Value 0.9% 7.7% S&P 400 Growth 0.1% -0.4% S&P 400 Value -0.2% 3.2% Russell 2000 Growth -1.7% -0.5% Russell 2000 Value -1.0% 0.9% | |

| | | | |
|--|---|--|--|
| U.S. Dollar Index (DXY)  +1.2% (Jul) +3.1% (YTD) \$ was up 1.5% in '11 | CBOE Total Equity Options  (# of contracts in millions) Jul: 39.6 (+9.1%) Jun: 36.3 (-15.8%) Record 7/08: 67.2 million | Short Interest (NYSE)  Jul 13: 14.0B (-4.8%) Jun 15: 14.7B (+8.9%) Record 7/08: 18.61 billion shares | VIX Volatility Index (S&P 500)  18.93 (7/31) 17.08 (6/29) Record 11/20/08: 80.86 |
|--|---|--|--|

The Bond Market

| | |
|---|---|
| Index (Source: Barclays) U.S. Treasury: Intermediate 0.61% Jul 4.56% 12-mo. 0.52% Yield GNMA 30 Year 0.93% 5.82% 2.06% Municipal Bond (22+) 2.31% 16.77% 3.48% U.S. Aggregate 1.38% 7.25% 1.72% Intermediate Corporate 1.84% 6.67% 2.35% U.S. Corporate High Yield 1.90% 8.06% 6.89% Global Aggregate 1.16% 1.81% 1.82% Global Emerging Markets 3.38% 8.53% 4.93% | The yield on the benchmark 10-Year T-Note declined by 18 bps. to 1.47% in July. The high for the year was 2.38% on 3/19, while the all-time low was set at approximately 1.39% on 7/24. Investors continue to pour billions of dollars into bond funds on a monthly basis (see bottom of page). The sovereign debt crisis has yet to be remedied in Europe and growth has slowed here at home, as evidenced by the decline in the U.S.'s GDP growth rate from 2.0% (annualized) in Q1'12 to 1.5% (annualized) in Q2'12. Last month's announcement by the Fed that it was extending Operation Twist through the end of 2012 signaled investors that risks remain elevated. Some pundits continue to push for a third phase of quantitative easing, but economic activity, while softening at the moment, does not warrant such a bold move at this time, in our opinion. |
|---|---|

| Key Rates as of July 31 Fed Funds 0-0.25% 2-Yr. T-Note 0.21% 10-Yr. T-Bond 1.47% 30-Yr. Mortgage 3.61% Bond Buyer 40 4.25% (Source: Bloomberg) | Key Yield Spread The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 606 basis points on 7/31/12, down from 610 on 6/29/12. It was 475 on 7/29/11. (Source: Bloomberg) | 2012 Debt Issuance Through June (Source: Thomson Reuters) <table border="1"> <thead> <tr> <th>Debt Category</th> <th>\$ Amount</th> <th>% change over '11</th> </tr> </thead> <tbody> <tr> <td>Treasury</td> <td>\$1.14 Trillion</td> <td>+2.8%</td> </tr> <tr> <td>Corporate</td> <td>\$643.0 Billion</td> <td>+0.6%</td> </tr> <tr> <td>Convertible</td> <td>\$9.6 Billion</td> <td>-36.1%</td> </tr> <tr> <td>Asset-Backed</td> <td>\$100.4 Billion</td> <td>+48.6%</td> </tr> <tr> <td>Municipal</td> <td>\$191.7 Billion</td> <td>+69.1%</td> </tr> </tbody> </table> | Debt Category | \$ Amount | % change over '11 | Treasury | \$1.14 Trillion | +2.8% | Corporate | \$643.0 Billion | +0.6% | Convertible | \$9.6 Billion | -36.1% | Asset-Backed | \$100.4 Billion | +48.6% | Municipal | \$191.7 Billion | +69.1% |
|---|---|---|---------------|-----------|-------------------|----------|-----------------|-------|-----------|-----------------|-------|-------------|---------------|--------|--------------|-----------------|--------|-----------|-----------------|--------|
| Debt Category | \$ Amount | % change over '11 | | | | | | | | | | | | | | | | | | |
| Treasury | \$1.14 Trillion | +2.8% | | | | | | | | | | | | | | | | | | |
| Corporate | \$643.0 Billion | +0.6% | | | | | | | | | | | | | | | | | | |
| Convertible | \$9.6 Billion | -36.1% | | | | | | | | | | | | | | | | | | |
| Asset-Backed | \$100.4 Billion | +48.6% | | | | | | | | | | | | | | | | | | |
| Municipal | \$191.7 Billion | +69.1% | | | | | | | | | | | | | | | | | | |

Equity funds reported net cash *outflows* totaling \$6.3 billion in 6/12, vs. \$9.8 billion of *outflows* in 5/12, according to the Investment Company Institute. Bond funds reported net *inflows* totaling \$16.2 billion, vs. \$19.0 billion of net *inflows* in 5/12. Money Market fund net *outflows* totaled \$46.4 billion, vs. \$2.0 billion of net *outflows* in 5/12. Y-T-D through June, equity funds reported net *outflows* totaling \$30.2 billion, vs. \$152.8 billion of net *inflows* for bond funds (municipals had net *inflows* totaling \$27.9B) and \$178.4 billion of net *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 | 1379.32 | -11.87% | 11.01% | 2.07% |
| S&P 500 Growth | 763.67 | 04/02/12 | 363.99 | 03/09/09 | 751.02 | -1.66% | 11.97% | 1.79% |
| S&P 500 Value | 836.19 | 07/13/07 | 307.16 | 03/09/09 | 620.90 | -25.75% | 9.86% | 2.42% |
| S&P 400 | 1015.26 | 04/29/11 | 372.88 | 10/09/02 | 940.48 | -7.37% | 7.85% | 1.69% |
| S&P 400 Growth | 465.69 | 07/07/11 | 162.27 | 10/09/02 | 428.07 | -8.08% | 7.88% | 1.15% |
| S&P 400 Value | 361.18 | 06/04/07 | 135.55 | 10/09/02 | 324.74 | -10.09% | 8.18% | 2.25% |
| S&P 100 | 729.79 | 10/09/07 | 322.13 | 03/09/09 | 635.74 | -12.89% | 12.84% | 2.16% |
| DJIA | 14164.53 | 10/09/07 | 6547.05 | 03/09/09 | 13008.68 | -8.16% | 8.06% | 2.59% |
| NASDAQ 100 | 2784.42 | 04/02/12 | 804.64 | 10/07/02 | 2642.53 | -5.10% | 16.66% | 1.04% |
| Russell 2000 | 865.29 | 04/29/11 | 327.04 | 10/09/02 | 786.94 | -9.05% | 7.03% | 1.61% |
| Russell 2000 Growth | 497.75 | 04/29/11 | 169.69 | 10/09/02 | 452.52 | -9.09% | 6.92% | 0.89% |
| Russell 2000 Value | 1276.63 | 06/04/07 | 469.32 | 03/09/09 | 1037.42 | -18.74% | 7.13% | 2.32% |
| Russell 3000 | 907.58 | 10/09/07 | 389.61 | 03/09/09 | 810.65 | -10.68% | 10.40% | 2.02% |
| MSCI World x U.S. (USD) | 5379.90 | 10/31/07 | 1636.59 | 03/12/03 | 3795.86 | -29.44% | 3.70% | N/A |
| MSCI Emerging Markets (USD) | 473.35 | 10/29/07 | 79.55 | 10/10/02 | 377.75 | -20.20% | 5.96% | N/A |
| Bovespa/Brazil (USD) | 44638.24 | 05/19/08 | 2160.80 | 10/16/02 | 27372.43 | -38.68% | -9.56% | 4.64% |
| RTS/Russia (USD) | 2487.92 | 05/19/08 | 313.99 | 08/06/02 | 1377.35 | -44.64% | 3.71% | 3.70% |
| Bombay SE 500/India (USD) | 226.04 | 01/07/08 | 21.10 | 10/28/02 | 116.56 | -48.43% | 8.33% | 1.61% |
| Shanghai Composite/China (USD) | 810.24 | 10/16/07 | 122.21 | 07/11/05 | 330.67 | -59.19% | -3.27% | 2.65% |
| KOSPI/South Korea (USD) | 2.29 | 10/31/07 | 0.41 | 03/17/03 | 1.66 | -27.38% | 5.03% | 1.29% |
| Hang Seng (USD) | 4082.25 | 10/30/07 | 1078.13 | 04/25/03 | 2552.94 | -37.46% | 10.43% | 3.67% |
| MSCI Euro (USD) | 1988.53 | 10/31/07 | 598.84 | 03/12/03 | 907.28 | -54.37% | 1.08% | 4.20% |
| S&P Consumer Discretionary | 364.84 | 05/02/12 | 125.72 | 03/09/09 | 344.64 | -5.54% | 12.61% | 1.60% |
| S&P Consumer Staples | 369.64 | 07/30/12 | 182.72 | 03/10/03 | 368.30 | -0.36% | 11.63% | 2.77% |
| S&P Energy | 668.81 | 05/20/08 | 168.29 | 01/27/03 | 523.70 | -21.70% | 1.72% | 2.07% |
| S&P Utilities | 223.91 | 12/10/07 | 77.27 | 10/09/02 | 192.51 | -14.02% | 7.48% | 3.81% |
| S&P Financials | 509.55 | 02/20/07 | 81.74 | 03/06/09 | 197.44 | -61.25% | 13.92% | 1.89% |
| S&P Banks | 414.38 | 02/20/07 | 49.02 | 03/05/09 | 156.07 | -62.34% | 21.21% | 2.05% |
| FTSE NAREIT Equity REITs | 676.54 | 02/07/07 | 163.57 | 03/06/09 | 512.86 | -24.19% | 17.40% | 3.21% |
| S&P Health Care | 449.99 | 07/27/12 | 252.84 | 03/05/09 | 444.87 | -1.14% | 12.15% | 2.14% |
| S&P Pharmaceuticals | 373.66 | 07/27/12 | 214.50 | 03/03/09 | 371.17 | -0.67% | 12.14% | 3.19% |
| NYSE Arca Biotechnology | 1529.65 | 07/18/12 | 307.08 | 10/09/02 | 1456.09 | -4.81% | 33.48% | 0.09% |
| S&P Information Technology | 502.11 | 04/02/12 | 172.88 | 10/09/02 | 466.41 | -7.11% | 14.47% | 1.09% |
| Philadelphia Semiconductor | 560.65 | 01/12/04 | 171.32 | 11/20/08 | 383.72 | -31.56% | 6.27% | 1.57% |
| S&P Telecom Services | 181.06 | 05/31/07 | 79.00 | 09/30/02 | 155.20 | -14.28% | 24.13% | 4.52% |
| S&P Industrials | 381.16 | 10/09/07 | 132.83 | 03/09/09 | 311.15 | -18.37% | 7.80% | 2.41% |
| S&P Materials | 285.91 | 05/16/08 | 102.55 | 10/09/02 | 219.97 | -23.06% | 5.26% | 2.32% |
| Philadelphia Gold & Silver | 228.95 | 04/08/11 | 59.17 | 08/05/02 | 150.90 | -34.09% | -15.53% | 1.58% |
| Reuters/Jefferies CRB | 473.52 | 07/02/08 | 200.34 | 03/02/09 | 299.51 | -36.75% | -1.90% | N/A |
| Merrill Lynch Perpetual Preferred | 197.85 | 05/08/07 | 51.79 | 03/09/09 | 182.32 | -7.85% | 14.37% | 6.55% |
| Merrill Lynch High Yield Master II | 297.31 | 07/31/12 | 106.67 | 10/10/02 | 297.31 | 0.00% | 9.10% | 7.53% |