

ECONOMIC AND MARKET REVIEW – FIRST QUARTER 2011

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Economic Review

The US economic recovery is on a firmer footing, and overall conditions in the labor market appear to be improving gradually according to the most recent statement by the Fed as it continues to struggle with its dual mandate to maintain low unemployment and stable inflation. The Fed has held interest rates near zero since December 2008 and it expects to maintain exceptionally low levels for the federal funds rate for an extended period. The Fed also expects to continue its purchase of up to \$600 billion of longer-term Treasury securities by the end of the second quarter.

Real gross domestic product increased at an annual rate of 3.1% in the fourth quarter according to the latest release by the Bureau of Economic Analysis. In the third quarter, real GDP increased 2.6%.

The labor market appears to be getting a bit healthier. Total nonfarm payroll employment increased by 216,000 in March. Job gains occurred in several service-providing industries and in mining, and manufacturing employment continued to trend up. Since a recent low in February 2010, total payroll employment has grown by 1.5 million. The unemployment rate was little changed at 8.8% and the number of long-term unemployed (those jobless for 27 weeks or more) was 6.1 million.

Results from the *Business Outlook Survey* suggest that regional manufacturing activity continued to show improvement in March. Increases in input prices continue to be reported, and more firms have been reporting higher prices for their own manufactured goods.

The housing sector continues to be depressed. The average price of single-family homes in 20 major US metropolitan areas fell 3.1% from a year ago, according to the Standard & Poor's/Case-Shiller Home Price Index. New home sales fell 16.9% in February to an annual rate of 250,000.

According to *The Reuters University of Michigan Survey of Consumers* consumer confidence declined sharply in March due to rising gas and food prices. Just one-in-four consumers expected their financial position to improve during the year ahead, returning to near the lowest level ever recorded of 20%.

Financial Markets Review

Domestic Stock Market

A tsunami and nuclear disaster in Japan and chaos in the Middle East couldn't derail the US stock markets from advancing in the first quarter of 2011. The markets closed out the quarter with the Dow Jones Industrial Average recording its biggest first-quarter gain in over a decade. The Dow gained 6.41% for the first three months to finish at 12,319.73. The S&P 500 advanced 5.42% (ex-dividends) to close at 1,325.83 and the Nasdaq climbed to 2,781.07, up 4.83%.

Mid-cap and small-cap indexes outperformed large caps for the quarter. The S&P 400 MidCap Index returned 9.36% in the first quarter and the S&P SmallCap 600 Index gained 7.71%. Among the Russell Indexes, the top performer for the first quarter was the Russell 2500 Small-Cap Growth Index, up 9.83%.

The S&P 500's 10 broad market sectors, all posted positive returns for the first quarter. The top performing sector was energy, vaulting 16.76%, followed by industrials up 9.17% and health care gaining 5.60%. Consumer staples and utilities, the laggards among the group, still returned 2.34% each for the period.

For the quarter the top performing US industry groups as tracked by Dow Jones Indexes were pipelines (+25.35%), tires (+22.43%) and marine transportation (+19.25%). The losers included platinum and precious metals (-20.07%), recreational services (-12.45%), and nonferrous metals (-9.23%).

Caterpillar led the 30 Dow Jones Industrials components in the first quarter, rising 18.9%, followed by Chevron up 17.7% and Pfizer gaining 16.0%. Laggards included Cisco Systems down 15.2%, Microsoft losing 9.2% and Merck off 8.4%.

Looking to the second quarter of 2011, the general economic consensus is that the economy will continue to recover, benefiting stocks. However, there continues to be significant negatives including geo-political troubles, housing duress, excess government debt, low interest rates for savers, and high unemployment. In this environment, we recommend a prudent strategy of broad diversification across multiple asset classes matched to your investment time horizon and tolerance for risk.

Category/Style	Total Returns (03/31/11)			Annualized Returns (03/31/11)		
	First Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
S&P 500 (w/ dividends)	5.92	5.92	15.65	2.35	2.62	3.29
Russell 1000 (Large Cap)	6.24	6.24	16.69	2.98	2.93	3.83
Russell 1000 Growth	6.03	6.03	18.26	5.19	4.34	2.99
Russell 1000 Value	6.46	6.46	15.15	0.60	1.38	4.53
Russell 2000 (Small Cap)	7.94	7.94	25.79	8.57	3.35	7.87
Russell 2000 Growth	9.24	9.24	31.04	10.16	4.34	6.44
Russell 2000 Value	6.60	6.60	20.63	6.76	2.23	9.01

Source: Frank Russell Company/Standard and Poor's

International Stock Markets

International markets were mixed in the first quarter. The MSCI EAFE Index of developed countries advanced 3.36% for the quarter while emerging markets as measured by the MSCI Emerging Markets Index rose 2.05%.

In Europe, amid the continuing debt crisis, the Dow Jones Stoxx 600 Index of the largest publicly traded companies, finished at 275.90, virtually unchanged from year end. Among individual European countries, France's CAC-40 index returned 4.85% to 3,989.18, Germany's DAX index rose 1.84% to 7,041.31 and the UK London FTSE index advanced 0.15% to 5,908.76.

In Asia, the DJ Asia-Pacific index lost 1.59% for the first quarter to close at 140.26. Japan's Nikkei stock average fell 4.63% to 9,755.10. Among emerging markets the China Shanghai Composite Index gained 4.27% to 2,928.11 while the India Bombay Sensex Index dropped 5.19% for the quarter to 19,445.22.

In the Americas, Mexico's IPC All-Share Index declined 2.88% for the quarter to 37,440.51 and Brazil's Sao Paulo Bovespa Index lost 1.04% to 68,586.70, while Canada's S&P/TSX Composite Index rose 5.01% to 14,116.10.

Top performing among the countries representing the Dow Jones Global Index for the first quarter (in US dollars) were Bulgaria (+35.1%), Romania (+29.1%) and Hungary (+19.6%). Laggards were Egypt (-23.0%), Kuwait (-10.1%), and Oman (-9.9%).

For the first quarter, the best-performing DJ global industry groups were diamonds and gemstones (+34.4%), forestry (+17.6%), and oil equipment & services (+16.0%).

The dollar fell against the Euro and rose vs. the Yen. As of March 31, the Euro, per dollar was 0.7055 (-5.6%) and the Yen, per dollar was 83.19 (+2.4%).

World Bond Markets

The BarCap US Aggregate Bond Index gained 0.42% in the first quarter and the BarCap Municipal Index added 0.51%. The yield on the benchmark 10-year US Treasury note rose 17 basis points to 3.46%. Yields remained at record low levels for money funds with the 30-day money market average at a mere 0.01% for the quarter according to iMoneyNet.

Foreign bond yields crept higher in the first quarter with the 10-year bond yielding 3.67% in the United Kingdom, 3.34% in Germany, 3.29% in Canada, and 1.25% in Japan.

Commodities

Commodity prices continued upward in the first quarter. The Dow Jones-UBS Commodity Index climbed 4.41% to 16.956. Gold remained above \$1,400 closing the quarter up 1.25% to 1,438.90. Political turmoil in the Middle East drove crude oil prices higher for the first three months with the price per barrel rocketing 16.79% to finish the period at \$106.72. On the other hand, natural gas lost 0.36% to \$4.389/MMBtu.

Mutual Funds/Exchange Traded Funds

According to Lipper, Inc. the average diversified US stock fund gained 6.2% in the first quarter and the average diversified international fund gained 3.1%. According to the Investment Company Institute US stock funds took in over \$12 billion in new money in the first quarter compared to an average quarterly outflow of \$24 billion in the past year. International stock funds attracted \$17 billion in the first quarter according to the ICI. The average taxable bond fund returned 1.4% for the quarter. Bond funds saw inflows in excess of \$18 billion for the quarter with investors buying taxable bond funds to the tune of \$38 billion while municipal bond funds had outflows of \$20 billion.

MUTUAL FUNDS OVERVIEW- AS OF MARCH 31, 2011

Category	Total Returns			Annualized Returns		
	First Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
Municipal Bond (inter.)	0.53	0.53	1.83	3.73	3.56	3.82
Short Taxable Bond	0.63	0.63	3.24	3.46	3.82	3.61
Intermed. Taxable Bond	0.97	0.97	6.16	5.63	5.50	5.15
Long Taxable Bond	1.26	1.26	8.97	7.85	6.76	7.02
High Yield Bond	3.63	3.63	13.51	9.67	6.85	6.79
World Bond	1.30	1.30	7.24	4.65	6.59	6.81
Small-Cap Stock	7.92	7.92	25.29	8.02	3.12	8.50
Mid-Cap Stock	8.00	8.00	22.79	6.44	3.99	7.62
Large-Cap Stock	5.61	5.61	14.51	1.98	2.13	3.28
World Stock	4.18	4.18	14.73	0.78	2.68	5.25
Foreign Stock	2.99	2.99	12.11	-2.74	1.32	5.01
Natural Resources	7.68	7.68	25.59	1.48	8.10	15.36
Real Estate	6.07	6.07	23.22	1.48	0.49	10.42

Source: Morningstar, Inc.

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