

ECONOMIC AND MARKET REVIEW – SECOND QUARTER 2011

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Economic Review

According to the June Federal Open Market Committee Statement, the economic recovery is continuing at a moderate pace, though somewhat more slowly than the Committee had expected. The slower pace of the recovery reflects in part factors that are likely to be temporary, including the damping effect of higher food and energy prices on consumer purchasing power and spending as well as supply chain disruptions associated with the tragic events in Japan. The FOMC voted to keep short-term interest rates unchanged for a 20th consecutive meeting. It has now been 2 ½ years since the Fed voted to cut interest rates in December 2008.

The economy in the first quarter was marginally stronger than previously believed as the Commerce Department's third estimate for GDP growth was nudged up to 1.9%.

New home sales fell 2.1% in May. The number of new houses for sale at 166,000 has never been lower in nearly 50 years of data. This still represents a supply of 6.2 months at the current sales rate.

During the first 5 months of this year construction spending amounted to \$285.1 billion, 6.3% below the \$304.4 billion for the same period in 2010 according to the US Department of Commerce.

The Manufacturing ISM *Report on Business* rose in June indicating expansion in the manufacturing sector for the 23rd consecutive month. New orders and production were both modestly up from the prior month and employment showed continued strength.

Consumer confidence slipped in June due to renewed concerns about the outlook for the economy according to the University of Michigan's Survey of Consumer's. "While it has thus far been the inability not the unwillingness of consumers to ramp up their spending, continued economic stagnation may ultimately dampen their spending desires in favor of a more permanent shift toward economic caution and risk aversion", stated chief economist Richard Curtin.

Congress continues to be deadlocked over a deficit-cutting deal to raise the nation's borrowing limit and avoid a default on government debt. Without a debt-ceiling increase the government will lose the ability to pay all of its bills by August 2nd.

Financial Markets Review

Domestic Stock Market

Stocks posted significant gains in the final week of the quarter after the Greek parliament approved an austerity plan paving the way to a European bailout and easing investor worries over a Greek debt default. The Dow Jones Industrial Average edged back into positive territory for the quarter with the Dow ending the period up 0.77% at 12,414.34. For the first six months the Dow gained 7.23%. The S&P 500 slipped 0.39% (ex-dividends) in the second quarter to close at 1,320.64 and the Nasdaq ended June at 2,781.07, down 0.27%.

Other broad-market indexes were also relatively flat in the second quarter with the Russell 3000 index dropping a mere 0.03%. Among styles, growth outperformed value and large-cap outperformed small-cap for the period.

Over the past year the S&P 500's 10 broad market sectors, have posted strong returns. For the twelve months ended June 30th the top performing sector was energy, leaping 49.85%. Materials gained 42.60% and consumer discretionary advanced 38.39%. Even the laggards posted double digit returns over this period with financials up 11.44%, utilities returning 18.54%, and information technology moving ahead 24.54%.

For the past three months the top performing US industry groups as tracked by Dow Jones Indexes were footwear (+16.77%), clothing & accessories (+13.55%) and consumer finance (+13.51%). Laggards included coal (-14.69%), platinum and precious metals (-14.56%), and business training & employment agencies (-11.18%).

American Express led the 30 Dow Jones Industrials components in the second quarter, rising 14.38%, followed by Kraft Foods up 12.34% and Johnson & Johnson gaining 12.27%. Laggards included Bank of America down 17.78%, J.P. Morgan Chase losing 11.19% and Hewlett-Packard off 11.15%.

Looking to the second half of 2011, the general economic consensus is that the economy will continue to fare better, in part because the effects of Japan's natural disasters on the supply chain should ease, and the impact of recent oil price declines should buoy retail spending. However, persistent high unemployment, and a housing market still looking for a bottom continue to be a significant drag on the economy.

Category/Style	Total Returns (06/30/11)			Annualized Returns (06/30/11)		
	Second Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
S&P 500 (w/ dividends)	0.10	6.02	30.69	3.34	2.94	2.72
Russell 1000 (Large Cap)	0.12	6.37	31.93	3.68	3.30	3.21
Russell 1000 Growth	0.76	6.83	35.01	5.01	5.33	2.24
Russell 1000 Value	-0.50	5.92	28.94	2.28	1.15	3.99
Russell 2000 (Small Cap)	-1.61	6.21	37.41	7.77	4.08	6.27
Russell 2000 Growth	-0.59	8.59	43.50	8.35	5.79	4.63
Russell 2000 Value	-2.65	3.77	31.35	7.09	2.24	7.53

Source: Frank Russell Company/Standard and Poor's

International Stock Markets

Against the backdrop of the continuing European debt crisis, international markets still managed to return 1.56% for the second quarter as measured by the MSCI EAFE Index of developed countries. Increasing inflation concerns kept emerging markets in check with the MSCI Emerging Markets Index losing 1.15% for the quarter.

In Europe, the Dow Jones Stoxx 600 Index of the largest publicly traded companies, finished at 272.86, falling 1.10% for the quarter. Among individual European countries, France's CAC-40 index inched down 0.17% to 3,982.21, Germany's DAX index strengthened 4.76% to 7,376.24 and the UK London FTSE index advanced 0.63% to 5,945.71.

In Asia, the DJ Asia-Pacific index lost 0.25% for the second quarter to close at 139.91. Japan's Nikkei stock average gained 0.63% to 9,816.09 despite the Tsunami and subsequent nuclear disaster. Among emerging markets the India Bombay Sensex Index dropped 3.08% for the quarter to 18,845.87 and the China Shanghai Composite Index dropped 5.67% to 2,762.08 reflecting concerns of a potential hard landing.

In the Americas, Mexico's IPC All-Share Index declined 2.36% for the quarter to 36,558.07 and Brazil's Sao Paulo Bovespa Index plunged 9.01% to 62,403.64, while Canada's S&P/TSX Composite Index declined 5.78% to 13,300.87.

The top performing countries representing the Dow Jones Global Index for the second quarter (in US dollars) were Latvia (+10.0%), New Zealand (+9.2%) and Indonesia (+6.9%). Laggards were Cyprus (-19.5%), Greece (-16.0%), and Peru (-14.9%).

For the second quarter, the best-performing DJ global industry groups were footwear (+15.7%), tires (+14.0%), and consumer finance (+10.1%).

The dollar yo-yoed against the Euro before ending down 2.4% to \$1.4502 at quarter's end. The dollar also slid against the yen, finishing the quarter at 80.57 yen per US dollar.

World Bond Markets

The BarCap US Aggregate Bond Index gained 2.29% in the second quarter and the BarCap Municipal Index added 3.89%. The yield on the benchmark 10-year US Treasury note fell 29 basis points to 3.17%. Yields remained at record low levels for money funds with the 30-day money market average hovering near zero percent for the quarter according to iMoneyNet.

Foreign bond yields also dropped during the second quarter with the 10-year bond yielding 3.19% in the United Kingdom, 2.94% in Germany, 2.97% in Canada, and 1.12% in Japan.

Commodities

Commodity prices abated somewhat in the second quarter. The Dow Jones-UBS Commodity Index dipped 6.74% to close at 158.13. The commodity index, however, has advanced 26.81% for the year-to-date through June 30. Aided by the Western governments decision to release 60 billion barrels of strategic petroleum reserves, West Texas Intermediate fell 10.59% to 95.42/barrel at the quarter's close. Oil still remains up 30.80% through the second quarter. On pace to rise for the 11th straight year, gold gained 4.41% to stay above the \$1,500 mark at 1,502.30 per troy oz. Gold has advanced 24.54% through June. Natural gas remained little changed at \$4.374/MMBtu at quarter's end and down 9.89% for the year-to-date.

Mutual Funds/Exchange Traded Funds

The average domestic stock fund gained 0.69% in the second quarter, the average international stock fund was up 0.76% and the average taxable bond fund returned 1.51% according to Morningstar, Inc. The latest release of the Investment Company Institute showed the combined assets of the nation's mutual funds decreased by \$70.7 billion to \$12.403 trillion in May. Exchange traded funds were \$1.087 trillion in May compared to \$783.054 billion a year earlier.

MUTUAL FUNDS OVERVIEW- AS OF JUNE 30, 2011

Category	Total Returns			Annualized Returns		
	Second Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
Municipal Bond (inter.)	3.05	3.67	3.34	4.79	4.21	4.10
Short Taxable Bond	0.79	1.42	3.02	3.94	3.99	3.67
Intermed. Taxable Bond	1.84	2.84	5.33	6.69	5.99	5.30
Long Taxable Bond	2.43	3.70	7.71	8.23	6.64	7.17
High Yield Bond	0.59	4.27	14.99	9.24	7.00	7.15
World Bond	2.37	3.84	10.51	6.64	6.86	7.07
Small-Cap Stock	-1.51	6.37	36.84	7.35	3.72	6.98
Mid-Cap Stock	-0.77	7.08	35.48	5.12	4.41	6.57
Large-Cap Stock	-0.19	5.45	29.68	2.61	2.50	2.68
World Stock	0.39	4.71	30.17	1.71	3.20	4.87
Foreign Stock	1.18	4.19	30.81	-1.65	1.70	5.13
Natural Resources	-5.19	1.77	39.33	-4.84	6.32	14.09
Real Estate	3.46	9.74	32.51	4.77	1.59	9.65

Source: Morningstar, Inc.

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