

MONTHLY EconUpdate

MAY 6, 2010

Provided By:

Jude Wilson RFC, MBA

Wilson Group Financial Management
121 South Orange Avenue
North Tower, Suite 1500
Orlando, FL 32801
407-377-6622
407-358-5237
jude@wilsongroup-fm.com
www.wilson-fm.com



Securities and Advisory Services offered through First Allied Securities, Inc., A Registered Broker Dealer, Member FINRA/SIPC. An Advanced Equities Company.

All third party materials are the responsibility of their respective authors, creators, and/or owners. First Allied Securities, Inc. is not responsible for third party materials, and the information reflects the opinion of its authors, creators, and/or owners at the time of its issuance, which opinions and information are subject to change at any time without notice and without obligation of notification. These materials were obtained from sources believed to be reliable and presented in good faith, nevertheless, First Allied Securities, Inc. has not independently verified the information contained therein, and does not guarantee its accuracy or completeness. The information has no regard to the specific investment objectives, financial situation, or particular needs of any specific recipient, and is intended for informational purposes only and does not constitute a recommendation, or an offer, to buy or sell any securities or related financial instruments, nor is it intended to provide tax, legal or investment advice. We recommend that you procure financial and/or tax advice as to the implications (including tax) of investing in any of the companies mentioned. At any time First Allied Securities, Inc. and its affiliates (or employees thereof) may have a long or short position, or deal as principal or agent, in

Monthly Economic Update for May, 2010

Quote of the month. “A mind all logic is like a knife all blade.” - Rabindranath Tagore

The month in brief. As the weather warmed up, the market was still pretty hot: the S&P 500 pulled off a 1.48% gain for April.¹ On the whole, stocks overcame some major challenges: credit ratings were slashed for three European nations, and Goldman Sachs faced an investigation on charges of securities fraud. With scandal on Main Street’s mind, a financial reform bill started a journey through the Senate.

Domestic economic health. There were two great economic developments in April. First, consumer spending rose by 0.6% for the month (after a 3.6% increase in the first quarter). There was also a 0.3% gain in wages, the first gain of 2010. Additionally, the Institute for Supply Management’s factory index hit 60.4 for April, the best reading since June 2004 and a nice complement to the ISM March service sector index, which moved north 2.4 points to 55.4.^{2,3} Durable goods orders also improved in March, with a 1.3% gain.⁴

On paper, the recession seemed by all means over ... but it seemed the recovery was only starting to trickle down to Main Street. As President Obama remarked last month, “You’re hired’ is the only economic news [Americans] are waiting to hear.” The jobless rate remained at 9.7% in March, and analysts see little movement for the April report.⁵ Consumer sentiment polls differed: the Reuters/University of Michigan survey slipped to 72.2 – still better than the 71.0 economists forecast – while the Conference Board’s April survey indicated the best consumer sentiment since September 2008.⁶

A massive financial reform bill was cleared for debate in the Senate. If made law, it will create a new consumer watchdog agency regulating banks and brokerages, impose the “Volcker Rule” to bar banks from proprietary trading, and put tighter scrutiny on hedge funds and derivatives – all with the ultimate mission of preventing another bank bailout.⁷ Is this a good and necessary move, or more bureaucracy and more pain for banks when they are trying to recover from the downturn? You’ll hear both sides of the story across spring, summer and maybe fall.

Global economic health. In the last week of the month, Standard & Poor’s downgraded the debt ratings of Spain, Greece, and Portugal – cause for alarm, and a shock to the Euro.⁸ The International Monetary Fund and the European Union announced

a \$144 billion bailout package for Greece as April ended.⁹ However, investors worried about contagion. Was this just a band-aid on the way to default? How hard would this hit global banks?

In the Asia Pacific region, the news was decidedly better. China’s gross domestic product was growing at its fastest pace since 2007 – annualized GDP was projected at 11.9% off the February data.¹⁰ Australia learned that its inflation rate nearly doubled during 1Q 2010, and Japan’s overall retail sales saw a third straight monthly gain. Japan’s central bank changed its 2011 economic forecast to show minimal inflation instead of mild deflation.¹¹

World financial markets. Most of the foreign indices had a poor month, thanks to sovereign debt issues. Ireland’s ISE index actually rose 6.9% last month; the Philippines All Shares rose 3.3% and Argentina’s Merval rose 1.0%. Russia’s RTSI was flat for the month.

As for the downside, Germany’s DAX was down 0.3%. Australia’s All Ordinaries lost 1.4%, the FTSE 100 lost 2.2%, Spain’s IBEX fell 3.0% and France’s CAC 40 slipped 3.4%. Portugal’s PSI 20 dropped 9.4%.¹² The MSCI World Index gained 0.07% in local currency terms for April; the MSCI Emerging Markets index lost 0.15% in local currency terms last month.¹³

Commodities markets. Call it a flight to quality, a flight to safety, whatever you wish – it was a fine month for gold and other precious metals. Gold advanced 6.0% for April, settling at \$1,180.10 on the NYMEX at month’s end. Silver gained 6.4% and platinum 6.0%; palladium went north by 15.8%. Copper was not so fortunate – futures fell 5.9% in April. The metal that had such a fantastic 2009 was up only 0.3% YTD through April.^{14,15}

Oil gained \$2.39 a barrel in April, putting prices at \$86.15 at the end of the month and capping an 18.19% jump in crude futures since the start of February. The U.S. Dollar Index gained 0.97% last month.^{14,16}

Housing & interest rates. The numbers got a little wacky, skewed again by the rush to take advantage of expiring tax credits. March new home sales rose by 26.9%. It was the biggest monthly jump in new home purchases since 1963. Census Bureau data had new home prices averaging \$258,600 nationally, right about where they were a year before.¹⁷ Existing home sales went north by 6.8%, and pending home sales rose by 5.8% - both encouraging signs, even with the

seasonal fluctuations of the residential real estate market.¹⁸ the February's S&P/Case-Shiller Home Price Index had prices surveyed across 20 cities (on average) 0.6% above February 2009 levels. Yes, the average price was 0.9% below January, but this marked the first year-over-year gain in the index since December 2006. (In April 2009, prices were 24.0% below year-ago levels in the index.)¹⁹ Construction spending also increased by 0.2% for March.²

So did mortgage rates shoot through the ceiling last month? No. The Federal Reserve made its way out of the mortgage market, and it was not the end of the world.

Looking over Freddie Mac's Weekly Primary Mortgage Market Survey, here is the movement from the April 1 snapshot to the April 29 snapshot: average rates on 30-year FRMs went from 5.08% to 5.06%, averages on 5/1-year hybrid ARMs went from 4.10% to 4.00%, averages on 1-year ARMs rose from 4.05% to 4.25%, and averages on 15-year FRMs were 4.39% on both dates.²⁰

Major indices. As mentioned earlier, it was another up month for stocks. The NASDAQ led the way among the big three, gaining an impressive 2.64% for April. The Russell 2000, by the way, advanced 5.59% last month, bringing its performance to +14.58% through the first third of 2010.¹

% Change	1-Month	Y-T-D	1-Year
DJIA	+1.40	+5.57	+34.78

NASDAQ	+2.64	+8.46	+43.32
S&P 500	+1.48	+6.42	+35.96

(Sources: cnbc.com, bigcharts.com, 4/30/10)^{1,21}
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

May outlook. As May opens, all eyes are on Europe, and on whether the EU can adequately solve the debt crisis plaguing three nations. Will Spain need a bailout? How about Portugal? And for that matter, is China's real estate market overheated? While there is plenty of speculation, and while speculation makes for juicy economic headlines, there is also the reality that the manufacturing and service sectors and consumer spending are also quite healthy here and in other parts of the globe. So the adage "sell in May and go away" may be ignored. In fact, May is the month that has seen the best returns for the S&P 500 since 1990.²²

Riddle of the month. A zoo keeper has a certain number of cages and a certain number of tigers. If she puts one tiger in each cage, she has one tiger too many. If she puts two tigers in each cage she has one cage too many. How many tigers and cages does she have?

Last month's riddle: This is an unusual paragraph. How quickly can you find out what is unusual about it? It looks so plain you would think nothing was wrong with it. In fact, nothing is wrong with it. It is unusual, though. Study it, and think about it, but you still may not find anything odd. What is missing from it?

Last month's riddle answer: The paragraph does not contain a single "e" ... the most common letter in the English language.

***Please feel free to forward this article to family, friends or colleagues.
If you would like us to add them to our list, please reply with their address
and we will contact them and ask for their permission to be added.***

«RepresentativeDisclosure»

This material was prepared by Peter Montoya Inc, and does not necessarily represent the views of the presenting Representative or the Representative's Broker/Dealer. This information should not be construed as investment advice. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is not possible to invest directly in an index. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. The Irish Stock Exchange (ISE) is Ireland's stock exchange, formed through the merger of the Cork and Dublin exchanges. The PSE All Shares Index is the stock index in the Philippine Stock Exchange in which all of the stocks traded are included in computations for the level of the index. The Argentina Merval Index, a basket weighted index, is the market value of a stock portfolio, selected according to participation in the Buenos Aires Stock Exchange. The RTS Index (RTSI) is an index of 50 Russian stocks that trade on the RTS Stock Exchange in Moscow. The DAX 30 is a Blue Chip

stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The Australian All Ordinaries Index is the major stock price index in Australia, a capitalization-weighted index made up of the largest 500 companies (as measured by market capitalization) listed on the Australian Stock Exchange. The FTSE 100 Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. The IBEX 35 is the benchmark stock market index of the Bolsa de Madrid, Spain's principal stock exchange. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The PSI-20 (Portuguese Stock Index) is a benchmark stock market index of companies that trade on Euronext Lisbon, the main stock exchange of Portugal. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. All economic and performance data is historical and not indicative of future results. The market indices discussed are unmanaged. Investors cannot invest in unmanaged indices. The publisher is not engaged in rendering legal, accounting or other professional services. If other expert assistance is needed, the reader is advised to engage the services of a competent professional. Please consult your Financial Advisor for further information. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards.

Citations.

- 1 cnbc.com/id/36738472 [4/30/10]
- 2 bloomberg.com/apps/news?pid=20601068&sid=aQ1HT_pipnLk# [5/3/10]
- 3 mortgagenewsdaily.com/05032010_week_ahead_jobs_income.asp [5/3/10]
- 4 reuters.com/article/idUSTRE63F2NT20100504 [5/4/10]
- 5 usnews.com/money/business-economy/articles/2010/04/30/what-32-percent-gdp-growth-says-about-our-contradictory-economy.html [5/3/10]
- 6 thestreet.com/story/10742069/1/consumer-confidence-no-clarity-here.html [4/30/10]
- 7 csmonitor.com/USA/Politics/2010/0428/Financial-reform-four-sticking-points [4/28/10]
- 8 dealbook.blogs.nytimes.com/2010/04/28/spains-debt-rating-cut-as-finance-officials-meet/4/28/10]
- 9 nytimes.com/2010/05/05/business/05markets.html?src=busln [5/4/10]
- 10 cfdtrading.com/category/asian-markets/page/2/ [4/15/10]
- 11 cfdtrading.com/category/asian-markets [4/28/10]
- 12 emerginvest.com/WorldStockMarkets/Countries.html [5/3/10]
- 13 mscibarra.com/products/indices/international_equity_indices/performance.html [4/30/10]
- 14 blogs.wsj.com/marketbeat/2010/04/30/data-points-energy-metals-271/ [4/30/10]
- 15 coinnews.net/2010/05/01/bullion-business-monthly-report-april-2010/ [5/1/10]
- 16 online.wsj.com/mdc/public/npage/2_3051.html?mod=mdc_curr_dtabnk&symb=DXY#IndexComponents [5/2/10]
- 17 money.cnn.com/2010/04/23/news/economy/new_home_sales/index.htm [4/23/10]
- 18 theatlantic.com/business/archive/2010/05/pending-home-sales-up-53-in-march/56129/ [5/4/10]
- 19 marketwatch.com/story/home-prices-show-year-over-year-gain-sp-2010-04-27 [4/27/10]
- 20 freddiemac.com/pmms/index.html?year=2010 [5/4/10]
- 21 bigcharts.marketwatch.com/historical/default.asp?detect=1&symbol=DJIA&close_date=4%2F30%2F09&x=0&y=0 [4/30/10]
- 21 bigcharts.marketwatch.com/historical/default.asp?detect=1&symbol=COMP&close_date=4%2F30%2F09&x=0&y=0 [4/30/10]
- 21 bigcharts.marketwatch.com/historical/default.asp?detect=1&symbol=SPX&close_date=4%2F30%2F09&x=0&y=0 [4/30/10]
- 22 marketwatch.com/story/us-stock-market-on-shakier-ground-for-may-2010-05-01 [5/1/10]