

MONTHLY EconUpdate

AUGUST 8, 2011

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

August 2011

MONTHLY QUOTE

“The ability to deal with people is as purchasable a commodity as sugar or coffee and I will pay more for that ability than for any other under the sun.”
– John Rockefeller

MONTHLY TIP

When was the last time you calculated your net worth? Doing this annually will help you gauge the pace of your financial progress. Need help? Visit tinyurl.com/wimnw or give me a call.

MONTHLY RIDDLE

Two boxes each hold four hot sauce packets and four soy sauce packets. Without looking, you take one packet from each box. What are the chances that at least 1 of the packets you draw is a hot sauce packet?

Last month's riddle:

Michael reminds his friends that he grew up as an only child. Then he introduces Levi to these friends, stating that Levi's father is also the son of Michael's father. So how are Michael and Levi related?

Last month's answer:

Levi is Michael's son.

THE MONTH IN BRIEF

Debt. The word hung over global markets like a cloud in July, and Wall Street braced for the shock that could have resulted if Congress didn't raise the debt ceiling by August 2. Fortunately for stocks, a deal was struck in time – but the anxiety in the days prior to the deal stole momentum from the stock market. Away from Washington, domestic economic indicators left much to be desired. On the month, the S&P 500 lost 2.15%.¹

DOMESTIC ECONOMIC HEALTH

If Congress didn't sink the stock market in July, it came close. Partisan stances firmed as the clock ticked toward an August 2 deadline to raise the nation's debt ceiling cited by Treasury Secretary Timothy Geithner. At the last minute, an accord was reached and made law – but not before U.S. stocks had their worst week in over a year, with the S&P 500 losing 52.74 points from July 25–29. The Budget Control Act of 2011 calls for the federal debt cap to be raised by as much as \$2.4 trillion, with budget cuts of at least \$2.1 trillion over the next decade.^{1,2}

As July ended, we were getting a portrait of a very weak recovery. Personal spending retreated 0.2% in June after advancing only 0.1% in May, and the jobless rate was 9.2% in June with a net job gain of just 18,000. The Commerce Department also told us that the economy expanded by only 1.3% in the first half of 2011. The University of Michigan's final July consumer sentiment survey seemingly reflected some of this: it came in at 63.7, a low unseen in 28 months. The Conference Board's monthly survey managed to advance 1.9 points to 59.5.^{3,4,5,6}

Tighter wallets and pocketbooks tend to encourage lower prices, so a dip in inflation wasn't exactly a surprise. In June, the Consumer Price Index retreated 0.2% to match the pullback in personal spending. It was the first decline in CPI in a year. However, core CPI rose 0.3% for the second straight month. Annual inflation was running at 3.6%, with annual core inflation at 1.6%. The Producer Price Index dipped 0.4% in June, its first negative month in a year. Retail sales ticked up 0.1% in June; Ford (+6.0%), Chrysler (+20.0%) and GM (+7.6%) recorded big increases in auto sales in July.^{7,8,9}

While the Institute for Supply Management's manufacturing and service sector indices simply amount to surveys of purchasing managers, they are among the nation's most-watched economic indicators. Both indices disappointed investors in July: the manufacturing PMI dropped 4.4% to just 50.4 (barely indicating growth) while the service sector PMI also went south 0.6% to 52.7. For that matter, the June readings on factory orders (-0.8%) and durable goods orders (-1.9%) also showed declines.^{10,11}

GLOBAL ECONOMIC HEALTH

In Europe, investors fretted that the twin EU/IMF bailouts for Greece had come too late. They also worried about Italy – would its government soon need a similar rescue effort? A red flag went up when the heavily indebted nation's 10-year note yields topped 6%. That was the alarm that led to bailouts for Portugal and Ireland. These anxieties aside, it is worth noting (as European Council president Herman Van Rompuy did in Great Britain's *Guardian*) that economic growth is currently averaging about 2.5% in the nations of western Europe, about double that of America.^{12,13}

China's manufacturing sector barely grew in July, with the nation's official PMI edging down to 50.7 from the 50.9 reading in June. That PMI hasn't been so low

since March 2009. The pullback also happened in other nations in the region. India's manufacturing activity gauge went south to 53.6 from 55.3 in June; Taiwan's PMI contracted for the second month in a row, falling to 46.1. South Korea's manufacturing sector bucked the trend; its PMI improved a bit to 51.3.¹⁴

WORLD MARKETS

Last month, two of the world's hottest stock markets could be found in Southeast Asia. Indonesia's JSX Composite hit a new all-time high and gained 6.2%. Thailand's benchmark SET index did even better, soaring 8.2%. Hong Kong's Hang Seng gained 0.2% in July, while China's Shanghai Composite slipped 2.0%. Key European indices struggled, particularly the CAC 40; the major French index plummeted 7.8% last month. Other July losses in Europe: DJ STOXX 600, -2.8%; FTSE 100, -2.1%; DAX, -0.4%. The MSCI World Index fell 1.89% in July; the MSCI Emerging Markets Index lost 0.74% for the month.^{15,16,17,18}

COMMODITIES MARKETS

The broad commodities market staged a nice rebound: after two tough months, the 19-commodity Reuters-Jefferies CRB Index gained 1.2% for July. Gold had a fantastic month – the COMEX price soared \$126.00 in July. Gold's 8.3% July gain was echoed by advances for silver (15.0%), palladium (8.8%) and platinum (3.4%). Oil ended July at \$95.70 per barrel, eking out a 0.3% monthly gain. The U.S. Dollar Index lost -0.54% in July, closing at 73.90 on July 29.^{19,20,21,22}

REAL ESTATE

New and existing home sales declined in June: new home sales slipped by 1.0% while residential resales declined by 0.8%. The May edition of the S&P/Case-Shiller Home Price Index showed a 4.5% year-over-year decline. Other indicators offered some bright spots. The National Association of Realtors said pending home sales were up 2.4% in June. Construction spending improved 0.2% in June, a third straight monthly gain. Perhaps most encouragingly, single-family housing starts improved by 9.4% in June.^{23,24,25}

Mortgage interest rates remained at rock-bottom levels, and didn't move much from the end of June. In Freddie Mac's July 28 Primary Mortgage Market Survey, the monthly movement looked like this: 30-year FRMs, +0.04% to 4.55%; 15-year FRMs, -0.03% to 3.66%; 5/1-year ARMs, +0.03% to 3.25%; 1-year ARMs, -0.02% to 2.95%.²⁶

LOOKING BACK...LOOKING FORWARD

The Dow and S&P 500 suffered their poorest month (in percentage terms) since August 2010. Both the NASDAQ and Dow logged their third straight down month.¹

% CHANGE	Y-T-D	1-MO CHG	1-YR CHG	10-YR AVG
DJIA	+4.89	-2.18	+16.01	+1.67
NASDAQ	+3.90	-0.62	+22.41	+3.66
S&P 500	+2.75	-2.15	+17.32	+0.73
REAL YIELD	7/29 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.38%	1.21%	2.41%	3.50%

Sources: usatoday.com, online.wsj.com, bigcharts.com, treasury.gov - 7/29/11^{1,27,28,29,30}
 Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
 These returns do not include dividends.

How will August play out? You have to look hard to find some optimism; some bearish analysts are wondering if a double-dip recession is forthcoming, or already here. They point to the mediocrity of the 1Q and 2Q GDP and the stalled housing market as key signals. However, you have to consider that Japan's hub economy suffered three disasters, and that turmoil in the Middle East and North Africa helped

drive energy costs higher in the first half of the year. If the consumer can regain enthusiasm as a byproduct of lower energy prices, decent job generation, improved corporate profits, corresponding bullishness in the stock market and any added geopolitical stability, the second half of 2011 may provide a lift for equities.

UPCOMING ECONOMIC RELEASES: Here is the data stream for the rest of August. Ahead of us, we have the July unemployment figures (8/6), an FOMC meeting (8/9), a report on June wholesale inventories (8/10), July retail sales figures, June business inventories and the initial University of Michigan August consumer sentiment survey (8/12), July building permits and housing starts (8/16), the July PPI (8/17), the July CPI, July's existing home sales and the Conference Board's LEI index for August (8/19), July new home sales (8/23), July durable goods orders (8/24), the final August consumer sentiment poll from the University of Michigan and the second take on 2Q GDP (8/26), July consumer spending and June pending home sales (8/29), the June Case-Shiller home price index and the Conference Board's August look at consumer confidence (8/30), and lastly a report on July factory orders (8/31).

***Please feel free to forward this article to family, friends or colleagues.
If you would like us to add them to our distribution list, please reply with their address.
We will contact them first and request their permission to add them to our list.***

This material was prepared by MarketingLibrary.Net Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. 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 JSX Composite is an index of all stocks that trade on the Indonesia Stock Exchange (formerly known as Jakarta Stock Exchange). The SET Index is a market capitalization-weighted price index calculated from the prices of all common stocks on the main board of the Stock Exchange of Thailand (SET), except for stocks that have been suspended for more than one year. The Hang Seng Index is a float-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 18 countries of the European region. The FTSE 100 Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. 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. The US Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. 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. 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 assistance is needed, the reader is advised to engage the services of a competent professional.

Citations.

- 1 - blogs.wsj.com/marketbeat/2011/07/29/data-points-u-s-markets-34/ [7/29/11]
- 2 - money.cnn.com/2011/08/01/news/economy/debt_ceiling_deal_cbo/ [8/1/11]
- 3 - reuters.com/article/2011/08/02/us-usa-economy-idUSTRE7662I420110802 [8/2/11]
- 4 - npr.org/2011/07/29/138814283/economy-slowed-sharply-during-first-half-of-2011 [7/29/11]
- 5 - bloomberg.com/news/2011-07-29/michigan-consumer-sentiment-index-fell-to-63-7-in-july-from-71-5-in-june.html [7/29/11]
- 6 - conference-board.org/data/consumerconfidence.cfm [7/26/11]
- 7 - online.wsj.com/article/SB10001424052702304521304576447641965268196.html [7/15/11]
- 8 - census.gov/retail/marts/www/marts_current.pdf [7/14/11]
- 9 - chron.com/disp/story.mpl/business/7680956.html [8/2/11]
- 10 - ism.ws/ISMReport/NonMfgROB.cfm [8/3/11]
- 11 - fxstreet.com/fundamental/economic-indicators/us-factory-orders-fall-in-june-/2011/08/03/ [8/3/11]
- 12 - reuters.com/article/2011/08/03/us-bonds-italy-spain-idUSTRE7722ZZ20110803 [8/3/11]
- 13 - guardian.co.uk/commentisfree/2011/jul/30/debt-crisis-greece-eurozone [7/30/11]
- 14 - online.wsj.com/article/SB1000142405311903341404576481450581731790.html [8/2/11]
- 15 - reuters.com/article/2011/07/29/markets-southeastasia-stocks-idUSL3E7IToLF20110729 [7/29/11]
- 16 - reuters.com/article/2011/07/29/markets-hongkong-china-stocks-update-idUSL3E7IToLO20110729 [7/29/11]
- 17 - nbr.co.nz/article/weekend-markets-wall-st-posts-biggest-weekly-decline-year-ng-98141 [8/1/11]
- 18 - mscibarra.com/products/indices/international_equity_indices/gimi/stdindex/performance.html [7/29/11]

19 - articles.economictimes.indiatimes.com/2011-07-30/news/29833265_1_copper-crude-oil-futures-debt-crisis [7/30/11]
20 - blogs.wsj.com/marketbeat/2011/07/29/data-points-energy-metals-503/ [7/29/11]
21 - bloomberg.com/news/2011-07-29/gold-surges-to-record-1-637-50-as-congress-plays-chicken-on-u-s-debt.html [7/29/11]
22 - online.wsj.com/mdc/public/page/2_3051.html?mod=mdc_curr_dtabnk&symb=DXY [8/3/11]
23 - cdn.theatlantic.com/static/mt/assets/business/assets_c/2011/08/month%20in%20review%202011-06-59407.php [8/2/11]

24 - blogs.wsj.com/developments/2011/07/28/behind-the-numbers-pending-home-sales-rise/ [7/28/11]
25 - fxstreet.com/fundamental/economic-indicators/us-construction-spending-better-than-expected/2011/08/01/ [8/1/11]
26 - freddiemac.com/pmms/ [8/3/11]
27 - usatoday.com/money/index [7/29/11]
28 - bigcharts.marketwatch.com/historical/default.asp?symb=DJIA&closeDate=7%2F29%2F10&x=0&y=0 [7/29/11]
28 - bigcharts.marketwatch.com/historical/default.asp?symb=COMP&closeDate=7%2F29%2F10&x=10&y=18 [7/29/11]
28 - bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=7%2F29%2F10&x=0&y=0 [7/29/11]
28 - bigcharts.marketwatch.com/historical/default.asp?symb=DJIA&closeDate=7%2F30%2F01&x=0&y=0 [7/29/11]
28 - bigcharts.marketwatch.com/historical/default.asp?symb=COMP&closeDate=7%2F30%2F01&x=0&y=0 [7/29/11]
28 - bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=7%2F2%30F01&x=0&y=0 [7/29/11]
29 - treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyield [7/29/11]
29 - treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyieldAll [7/29/11]
30 - treasurydirect.gov/instit/annceresult/press/preanre/2001/ofm71101.pdf [7/11/01]
31 - montoyaregistry.com/Financial-Market.aspx?financial-market=required-ira-distributions&category=1 [8/3/11]
