**The Market Week in Review**
For the Week Ending August 20, 2011

## THE MARKETS

The stock market had another rough week as the global economic picture worsened and concerns about the U.S. and Europe slipping into a 2nd recession grew. While the economic data was disconcerting, it seems that the greater risk is Washington's failure to provide effective leadership is causing consumers, business owners, and investors alike to become very cautious. Europe's political leaders seem to be even more inept than the numskulls in our capital city, and as result the situation appears to be even worse. The silver lining in all this is that the problems facing us as a nation and the world as a whole are eminently solvable, if only the bureaucrats would get their collective acts together.

| Index | Started Week | Ended Week | Change | % Change | YTD % |
|---|---|---|---|---|---|
| DJIA | 11,269.02 | 10,817.65 | -451.37 | -4.01% | -6.56% |
| Nasdaq | 2,507.98 | 2,341.84 | -166.14 | -6.62% | -11.72% |
| S&P 500 | 1,178.81 | 1,123.53 | -55.28 | -4.69% | -10.66% |
| Russell 2000 | 697.50 | 651.69 | -45.81 | -6.57% | -16.84% |

## DAILY DEVELOPMENTS

*MONDAY*
The National Association of Home Builders said Monday that its survey of industry sentiment was unchanged at 15 this month. Any reading below 50 indicates that home builders feel negatively about the housing market. The index hasn't reached 50 since April 2006, the peak of the housing boom, and is currently just seven points above the lowest reading on record, which occurred in January 2009.

*TUESDAY*
The Commerce Department said Tuesday that work began on 604,000 homes last month (on a seasonally adjusted basis), a 1.5% drop from June. That's approximately half one would expect in a healthy housing market. Single-family homes, which represent 70% of home construction, fell 5%. Apartment buildings rose more than 6%. Just 413,000 homes are under construction, after accounting for seasonal factors. That's the fewest number of homes under construction in 40 years.

Fortunately there was also some welcome news on Tuesday, which was contained in a report issued by The Federal Reserve. Factory output increased 0.6% in July, the biggest increase since the Japanese earthquake. Much of the gain can be traced to the auto industry which had its supply chain severely disrupted by the earthquake in Japan. Motor vehicles and parts jumped 5.2%. Excluding that category, factory output grew only 0.2%.

*WEDNESDAY*
On Wednesday the Labor Department reported the Producer Price Index – a measure of costs at the producer, or wholesale level, rose 0.2 percent in July. However, when the volatile food and energy costs are removed from the equation, prices rose twice as fast – 0.4%. The Federal Reserve has been betting for months that deflation, not inflation, is a bigger threat to the economy. That's why it has kept interest rates so low. Right now it looks as if the Fed may have been betting on the wrong horse.

*THURSDAY*
The Labor Department reported on Friday that its Consumer Price Index jumped 0.5% in July. Prices on consumer goods other than food and energy rose at a more stable 0.2 percent, in line with Wall Street expectations. Nonetheless, the increase in consumer prices and the increase in producer prices released Wednesday, suggest that inflationary pressures are building up across the economy. More specifically, the shelter index rose 0.3% despite depressed housing markets, while used cars and trucks showed a 0.7% jump in July.

Initial Claims for unemployment insurance rose by 9,000 to 408,000 for the week ending August 13$^{th}$. Economists had been forecasting there would be 400,000 new claimants. In addition, last week's numbers were revised upwards by 4,000. The good news is that the 4 week average fell 3,500 to 402,500. A total of 117,000 new jobs were created during July according to the establishment survey. The private sector total of 154,000 was offset in part by the loss of 37,000 jobs in the public sector. The current level would tend to imply a slight drop in the unemployment rate, perhaps to 9.0% from the current 9.1%.

Also on Thursday, the National Association of Realtors said sales of existing homes fell to a seasonally adjusted annual rate of 4.67 million. Economists polled by MarketWatch had expected a 4.99 million annual rate. However, June's figure was increased to 4.84 million from an initially reported 4.77 million. July's sales were 21% above the number of sales occurring in July 2010, but sales that month were artificially suppressed by the expiration of the home buyer tax credit.

*FRIDAY*
There were no major economic announcements on Friday.

**QUOTE OF THE WEEK**

Rather than include a quote this week, I thought I would leave you with an interesting observation I recently came across. While I cannot attest to its accuracy, I hope you find it as interesting as I did.

**Federal Budget 101**

By David Thomas
Chief Executive Officer
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"The U.S. Congress sets a federal budget every year in the trillions of dollars. Few people know how much money that is so we created a breakdown of federal spending in simple terms. Let's put the 2011 federal budget into perspective:

- U.S. income: $2,170,000,000,000.
- Federal budget: $3,820,000,000,000.
- New debt: $1,650,000,000,000.
- National debt: $14,271,000,000,000.
- Recent budget cut: $38,500,000,000 (about 1% of the budget).

It helps to think about these numbers in terms that we can relate to. Let's remove eight zeros from these numbers and pretend this is the household budget for the fictitious Jones family.

- Total annual income for the Jones family: $21,700.
- Amount of money the Jones family spent: $38,200.
- Amount of new debt added to the credit card: $16,500.
- Outstanding balance on the credit card: $142,710.
- Amount cut from the budget: $385.

So in effect last month Congress, or in this example the Jones family, sat down at the kitchen table and agreed to cut $385 from its annual budget. What family would cut $385 of spending in order to solve $16,500 in deficit spending? It is a start, although hardly a solution. Now after years of this, the Jones family has $142,710 of debt on its credit card (which is the equivalent of the national debt). You would think the Jones family would recognize and address this situation, but it does not. Neither does Congress."

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I hope you have found the information in this week's market summary helpful. If you would like to comment on any of the information found in this week's Market Commentary please e-mail me at awillms@estatecounselors.com. If you would like to discuss how current market conditions could impact your investments, please feel free to call me at the number listed below.

Best regards,

*Andy*

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