The Market Week in Review
For the Week Ending February 19, 2011

THE MARKETS

Stocks ended higher Friday, climbing just before the close, and once again all of the major stock indexes ended the significantly higher, although trading volume was weak. Perhaps the most notable development was the Wednesday release of the minutes from the Federal Reserve's most recent meeting. The notes indicated that the Federal Reserve Board now feels that the U.S. economy will grow significantly faster than was originally projected. The Fed is now predicting that the nation's output of goods and services will grow by 3.4 percent to 3.9 percent this year, as compared to its prior forecast of a 3 percent to 3.6 percent increase. But the Fed's outlook for the job market remains grim. The Reserve Board estimates that the unemployment rate will be somewhere between 8.8 percent to 9 percent this year, only one-tenth of a percentage point lower than in the November forecast.

Oil prices rose 1.8% for the week, ending at $87.14 a barrel. Gold closed Friday at $1,385.70 an ounce, up 1.9% for the week. U.S. bond and equity markets will be closed on Monday in observance of Presidents Day.

Index	Started Week	Ended Week	Change	% Change	YTD %
DJIA	12,273.26	12,391.25	117.99	0.96%	7.03%
Nasdaq	2,809.44	2,833.95	24.51	0.87%	6.83%
S&P 500	1,329.15	1,343.01	13.86	1.04%	6.79%
Russell 2000	822.11	834.82	12.71	1.55%	6.53%

In what can only be regarded as a positive sign, the companies that make up the S&P 500 index reduced cash reserves and short-term investments to $2.4 trillion in the past quarter, down from an all-time high of $2.46 trillion. Capital spending by those companies increased $22.3 billion, which amounts to the biggest quarter-to-quarter jump since the end of 2004 and the highest total in two years. Economists polled by Bloomberg said the increase in corporate spending could be enough to reduce U.S. unemployment from 9.6% to 9.2% by year-end.

DAILY DEVELOPMENTS

MONDAY
There were no major economic announcements on Monday.

TUESDAY

Retail sales last month reached $318.6 billion, the Commerce Department said Tuesday. Sales have risen more than 14 percent from the recession low in December 2008. Consumers spent more at department stores and on electronics in January. Overall, however, Americans spent less in January than analysts had expected, with retail sales rising 0.3 percent from December instead of the 0.5 percent rise that was economists' consensus forecast. Consumers spent less on clothing and furniture, and a significant part of the increase in the headline number can be attributed to higher gas prices. Some market commentators are attributing the less than stellar results to unusually harsh winter weather during the month.

The Commerce Department also reported on Tuesday that business inventories in the U.S. rose by 0.8 percent in December, which was slightly more than had been expected. This follows a 0.4 percent increase in November. Inventories at manufacturers and merchant wholesalers rose by 1.1 percent and 1.0 percent, respectively, contributing to the slightly bigger than expected increase in total inventories. Retailers' inventories increased by a more modest 0.4 percent. The report also indicated that business sales were up by 1.0 percent in December, after jumping by 1.4 percent in the previous month. Most impressive was the increase in sales by manufacturers, which surged up by 2.0 percent. Sales by retailers and merchant wholesalers rose by 0.6 percent and 0.4 percent, respectively.

WEDNESDAY

The Commerce Department's report on the state of the U.S. housing market delivered a mixed message on Wednesday. On the one hand, the report indicated that builders began work on homes at a seasonally adjusted annual rate of 596,000 units, up 14.6 percent from December. This was significantly higher than the forecasted housing starts edging up to a 554,000-unit rate. On the other hand, much of the increase was attributable to multi-family construction as the rate of starts for single-family homes was the lowest in almost two years. Permits for future home construction fell 10.4 percent to a 562,000-unit pace last month, partially reversing Decembers 15.3 percent surge that came ahead of changes in building codes in three states.

Inflation is heating up at the producer level according to a report issued by the Labor Department on Wednesday. The Producer Price Index rose 0.8 percent, following December's revised 0.9 percent boost and 0.7 percent jump in November. The market expectation was for a 0.2 percent rise. Food prices increased 0.3 percent, after a 0.8 percent boost in December. Energy prices gained by 1.8 percent after surging 2.8 percent in December. The core producer price index, which excludes food and energy, rose 0.5 percent, the biggest gain since October 2008.

As if the foregoing wasn't enough, the Federal Reserve announced on Wednesday that industrial production decreased 0.1 percent in January 2011 after having risen 1.2 percent in December. However, the decline can be attributed to a drop in the output of utilities, which fell 1.6 percent in January as temperatures moved closer to normal after unseasonably cold weather inflated the demand for heating in December. The production of consumer goods actually increased in January by 0.1 percent.

THURSDAY
The weekly jobs report issued by the Labor Department contained few surprises. Initial jobless claims for the week ended February 4th increased from 385,000 in the prior week to 410,000, which was in line with what forecasters had been predicting. Continuing claims were essentially unchanged at 3.91 million.

The Labor Department also reported on Thursday that the Consumer Price Index rose a seasonally adjusted 0.4% in January. Much of the increase was attributable to higher gas and grocery expenses, according to the report. Over the past year, the energy component of the Consumer Price Index has jumped 7.3%, as a result of higher gasoline and home heating fuel prices. "Core" consumer prices (which strips out food and energy prices) rose a more modest 0.2%.

FRIDAY
There were no major economic announcements on Friday.

QUOTE OF THE WEEK

"Never invest in any idea you can't illustrate with a crayon."
Peter Lynch

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

Andrew J. Willms, J.D. LL.M.
Estate Counselors, LLC
414 N. Main Street
Thiensville, WI 53092
Phone (262) 238-6996
Fax (262) 238-6999
awillms@estatecounselors.com
www.estatecounselors.com