The Market Week in Review
For the Week Ending January 15, 2011

THE MARKETS

The preponderance of economic news released this past week was positive, and that was reflected in stock prices. All four of the major equity indexes ended the week significantly higher. Retail sales topped estimates and inflation was muted, though initial claims were slightly higher than expected.

U.S. equity and bond market s are closed Monday in observance of Martin Luther King Jr. Day.

Index	Started Week	Ended Week	Change	% Change	YTD %
DJIA	11,674.76	11,787.38	112.62	0.96%	1.81%
Nasdaq	2,703.17	2,755.30	52.13	1.93%	3.86%
S&P 500	1,271.50	1,293.24	21.74	1.71%	2.83%
Russell 2000	787.83	807.57	19.74	2.51%	3.05%

As the new year begins, market forecasters are once again debating what 2011 will bring for the nation's economy, stock prices, interest rates, commodity prices and every other topic they can find to argue about. As regular readers of this newsletter already know, our view is that it is nearly impossible to predict with a high degree of consistency who is going to be right and who will be wrong. Therefore our preference is to be cautiously optimistic. To us that means investors should maintain a consistent asset allocation that is well suited to their risk tolerance and that does not expose him or her to more risk than is needed to accomplish the investor's personal investment goals.

DAILY DEVELOPMENTS

MONDAY
There were no major economic announcements on Monday.

TUESDAY
Consumer prices in China were 5.1 percent higher in November than a year earlier, according to a report issued by the Chinese Central Bank on Tuesday. However, many economists say the official figures actually understate the rate of inflation, which might in reality be twice as high. The cause seems to primarily be the Chinese government's own version of "quantitative easing". For the last several years, the Chinese government has been printing renminbi (Yuan) in an effort to limit its appreciation against the dollar. The

goal has been to keep the cost of Chinese goods low. As more renminbi are available to buy goods and services, the prices of those goods and services rise, triggering an increase in inflation. Hopefully the policy makers in Washington are paying attention to what China is experiencing.

WEDNESDAY

The Beige Book, which was prepared in anticipation of the January 25th – 26th Federal Open Market Committee meeting, was released on Wednesday. It reported that "economic activity in 12 Federal Reserve Districts "continued to expand moderately from November through December." The report indicated that the retail, manufacturing, and nonfinancial services sectors were relatively strong while financial services and real estate lagged. Some analysts believe that the report is evidence that economic conditions are continuing to improve.

The U.S. Treasury Department also released its monthly account of the surplus or deficit of the federal government on Wednesday. This month's report indicated that the Treasury's Budget deficit for December totaled $80 billion, which is down from the $91.4 billion deficit that was recorded last month. In December 2009 there was a $91.4 billion deficit. While the decline is a step in the right direction, it's also important to recall that over the past 10 years, on average the Treasury Department has reported a ***surplus*** of $12.6 billion for the month of December. The December surplus over the last 5 years has averaged $9.4 billion.

THURSDAY

The Labor Department reported on Thursday that initial claims for unemployment benefits surged to 445,000 during the week ending on January 8th. This is the highest number of people added to the unemployment rolls since October. However the Labor Department report indicated that the number was likely skewed by an administrative backlog built up during the holidays. They also note that many claimants postponed filing until the New Year, in order to increase their benefits. The average number of applications over the past four weeks also increased to 416,500. Continuing claims fell by 248,000 to 3.879 million during the week ending January 1st, but that is most likely due to the expiration of unemployment benefits.

Meanwhile, the producer price index increased 1.1 percent in December from the prior month, another Labor Department report showed. By comparison, Economists had been projecting a 0.8 percent gain. The increase was led by higher prices for commodities such as fuel and food. For all of 2010, companies paid 4 percent more for goods, compared with a 4.3 percent rise in 2009. Wholesale prices excluding energy and food climbed 1.3 percent last year, up from a 0.9 percent gain last year. These cost increases have not been reflected in prices as of yet due to the pressure to maintain sales in a slow economy. But if costs continue to rise, inflation is very likely to become an issue.

There was some good news on Thursday as well. It came in the form of a Commerce Department report that indicated that the U.S. trade deficit shrank in November by 0.3 percent to $38.3 billion, the smallest in 10 months. Exports increased 0.8 percent to $159.6 billion, the most since August 2008, as growing global demand and a weaker dollar combined to boost overseas sales.

FRIDAY

A slew of economic news was released on Friday. There was a mixed bag of good news and bad, but nothing overly dramatic. Here are the highlights:

- The December Consumer Price Index increased 0.5%, which was slightly higher than the 0.4% increase that had been forecasted. However, when the highly volatile food and energy sectors are deducted, core prices rose just .01% in December which is in line with forecasts.
- Industrial production increased 0.8% during December. This was much better than the predicted 0.4% increase.
- Business inventories increased just 0.2% in November. A 0.8% increase had been generally expected.
- Retail sales increased 0.6% in December. Excluding autos, retail sales increased 0.5%, which was again slightly less than what economists had been predicting.
- The preliminary Consumer Sentiment Survey for January from the University of Michigan came in at 72.7, which is below the 75.5 that had been expected after a December reading of 74.5.
- Business inventories increased just 0.2% in November. A 0.8% increase had been generally expected.

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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