The Market Week in Review
For the Week Ending January 29, 2011

THE MARKETS

The equity markets were relatively flat this week, until Friday that is. Then news was reported about a lower than expected growth in the country's gross domestic product. News about social unrest in the Middle East, an earnings miss by Ford and good old fashion profit taking combined to push stock prices sharply lower. The fact that Standard & Poor's lowered its sovereign debt rating on Japan by one notch to from AA to AA- also did not help matters. In response Treasuries made solid gains and the dollar advanced 0.5% against a collection of competing currencies.

Crude oil prices rose this week to $89.34 a barrel, a gain of 0.3% for the week. Gold was also up, finishing the week at $1,341.70 an ounce, a weekly gain of 0.05%.

Index	Started Week	Ended Week	Change	% Change	YTD %
DJIA	11,871.84	11,823.70	-48.14	-0.41%	2.13%
Nasdaq	2,689.54	2,686.89	-2.65	-0.10%	1.28%
S&P 500	1,283.35	1,276.34	-7.01	-0.55%	1.49%
Russell 2000	773.18	775.4	2.22	0.29%	-1.05%

Pressure is building on both the United States and Japan to address their massive debt loads. According to the International Monetary Fund, the United States and Japan must develop credible deficit-cutting plans or the markets will lose patience and investors will begin to dump their bonds.

DAILY DEVELOPMENTS

MONDAY
A poll by USA Today of 46 economists released on Monday found increasing optimism about the state of the U.S. economic recovery. On average the economists surveyed expect annualized growth of 3.2% to 3.4% for each quarter of 2011. That's up from quarterly median forecasts of 2.5% to 3.3% in an October survey. "This growth is now becoming self-reinforcing," said Mark Zandi, chief economist of Moody's Analytics. "Businesses are going to take their stronger sales and begin to hire more aggressively, generate more income, and we're off and running."

TUESDAY
Standard & Poor's Case-Shiller Home Price Index slid 1 percent in November from October, according to a report released Monday. 15 of the 20 real estate markets surveyed

saw prices decline. The decline in home prices is accelerating across the nation, according to the report, and a record number of foreclosures is expected to push prices down further through next year. The index has fallen 1.6 percent from a year ago. One hopeful sign is that the declines measured in November were less than in October.

The Conference Board, a private research group, said Tuesday that its Consumer Confidence Index jumped more than seven points in January to 60.6. Americans' views on the current economy and their expectations for the future both improved as people feel better about the job market.

And while the reading was significantly higher than most economists had been predicting it takes a reading of 90 to indicate a healthy economy, a level not approached since the recession began in December 2007.

WEDNESDAY
The Commerce Department reported on Wednesday that new home sales for December surged by 17.5% to an annualized rate of 329,000 units. Economists on average had been predicting an increase of 300,000. The 17.5% increase comes following the 5.5% gain that occurred in November. Still, compared to December last year, sales were down 7.6 percent. And, overall 2010 sales dropped 14.4 percent. The big question is whether momentum is building in the new housing market. If so, it could be a sign of good things to come in 2011.

The Federal Reserve issued its latest interest-rate statement Wednesday, following the conclusion of its two-day monetary-policy meeting. It indicated that the Fed was in no rush to cut short its $600 billion bond-buying plan even though the economy has shown some signs of improvement. "The economic recovery is continuing, though at a rate that has been insufficient to bring about a significant improvement in labor market conditions" the statement said. "Growth in household spending picked up late last year, but remains constrained by high unemployment, modest income growth, lower housing wealth and tight credit." The announcement drove long term Treasury bond prices lower as investors, worried that continued “quantitative easing” would stoke inflation, demanded higher yields.

THURSDAY
The Commerce Department announced on Thursday that durable goods orders declined 2.5%. It was the third straight monthly decline, led by a drop in commercial aircraft orders. Excluding transportation, durable orders increased 0.5%, which was only slightly below expectations. New orders, as well as transportation equipment orders, have been down four of the past five months. Despite the late-year slide, new orders for durable goods for the full-year 2010 rose 13.6 percent compared with 2009, the data showed.

Also on Thursday the Labor Department announced that Initial Claims for Unemployment Insurance rose by 51,000 last week to 454,000. This was much worse than the expected level of 410,000. Since claims can be volatile from week to week, it is better to track the four-week moving average to get a better sense of the trend. It rose by 15,750 to 428,750.

FRIDAY
The nation's gross domestic product increased by 3.2 percent (annual rate) in the fourth quarter of 2010, following an increase of 2.6 percent in the third quarter, according to the advance estimate by the Commerce Department. The acceleration in real GDP in the fourth quarter reflected a downturn in imports, growth in consumer spending, and increased investment in residential real estate. However, economists were expecting growth of 3.5%. For all of 2010, GDP grew by 2.9% -- after contracting by 2.6% in 2009.

The University of Michigan's Consumer Sentiment Index for January was revised upwards to 74.2 from the preliminary estimate of 72.7. The general expectation was for a reading of 73.0 but the January reading remains just below the December reading of 74.5. It appears as though consumers remain concerned about high gas and food prices, but are encouraged about what appears to be an improving economy and potentially a strengthening job market.

QUOTE FOR THE WEEK

> ***"In investment management, the real opportunity to achieve superior results is not in scrambling to outperform the market, but in establishing and adhering to appropriate investment policies over the long term – policies that position the portfolio to benefit from long term forces in the market."***
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> Charles D. Ellis
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> Charles D. Ellis is managing partner of Greenwich Associates. He is the author of ten books and nearly 100 articles on investing and has taught investment courses at both Harvard Business School and the Yale School of Management.

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