The Market Week in Review
For the Week Ending January 7, 2011

THE MARKETS

The S&P 500 and Dow recorded their sixth straight week of advances this week. While some market commentators continue to assert that stocks are due for a pullback, the major indexes continue to head higher, in response to economic data that suggests the nation's recovery is for real. We believe there is still a significant degree of uncertainty regarding the state of the U.S. economy. Therefore, we continue that for the time being conservative investors are wise to keep some of their powder dry.

Oil prices ended the week at $88.03, a decline of 4.4% for the week. Gold prices also fell to $1,368.90, a decline of 3.7% this week.

Index	Started Week	Ended Week	Change	% Change	YTD %
DJIA	11,577.51	11,674.76	97.25	0.84%	0.84%
Nasdaq	2,652.87	2,703.17	50.30	1.90%	1.90%
S&P 500	1,257.64	1,271.50	13.86	1.10%	1.10%
Russell 2000	783.65	787.83	4.18	0.53%	0.53%

The value of assets held in the form of exchange-traded funds now exceeds $1 trillion. Investors put $122 billion into ETFs last year, $19 billion of that coming in December. It seems clear that ETFs have surpassed mutual funds as the way investors prefer to invest in a basket of stocks. It also shows that more and more investors are realizing that a passive investment style is preferable to active investing, as most mutual funds are actively managed, while most ETFs are passively managed.

DAILY DEVELOPMENTS

MONDAY
The Institute for Supply Management announced Monday that its national factory activity index rose to 57 from 56.6 in November, marking the 17th consecutive month of growth for that very important component of the nation's economy. The improvement in the index was slightly weaker than the analyst consensus forecast of 57.3, but anything above 50 indicates expansion. "We saw significant recovery for much of the U.S. manufacturing sector in 2010," Norbert Ore, head of the ISM manufacturing business survey committee, said in a statement.

The Department of Commerce announced on Monday that construction spending during November 2010 was estimated at a seasonally adjusted annual rate of $810.2 billion, 0.4

percent (+/-1.6%) above the revised October estimate of $806.7 billion. Construction spending had not reached this level since last June. It was also the third straight monthly increase in construction spending. Spending on construction by the federal government jumped 8.2 percent to an all-time high $35.3 billion.

TUESDAY

The Federal Reserve minutes of the December 14th Federal Open Market Committee meeting were released on Tuesday. They suggest that the Fed is getting more confident that the U.S. economic recovery is gaining strength. But the committee decided that positive indicators were "not sufficient" to reduce “QE2”, its $600 billion treasury bond-buying program. That’s because despite its loose monetary policy, inflation remains below their target of 2%.

In what amounted to a welcomed surprise, The Commerce Department reported on Tuesday that new orders for manufactured goods increased 0.7 percent in November, after dropping a revised 0.7 percent in October. The Commerce Department report showed orders excluding transportation increased 2.4 percent in November, the highest since March. By comparison, October registered just a 0.1 percent gain. Orders for non-defense capital goods excluding aircraft, which is widely regarded as an indicator of business confidence, increased 2.6 percent after 3.2 percent decline in October.

WEDNESDAY

The Institute for Supply Management released the results of its survey of service providers on Thursday. The index compiled from that survey rose in December to 57.1 from 55.0 in November. Like the ISM’s manufacturing survey, a reading above 50 indicates that this sector of the economy is expanding. Thus, the report suggests that the Service side of the economy, which is far larger than the manufacturing side, is growing and that the rate of growth accelerated in December relative to November. This is the fourth straight month of acceleration in the overall index and makes it 12 straight months that it has been over 50.

THURSDAY

Initial unemployment claims rose by 18,000 to 409,000 in the week ended January 1st, the Labor Department said Thursday in its weekly report. The previous week's figures were revised upward to 391,000 from 388,000. Economists surveyed by Dow Jones Newswires had expected claims would climb by 22,000 to 410,000. The four-week average of new claims decreased by 3,500 to 410,750. Continuing claims also continue to move lower, down 47,000 to 4.103 million during the December 25th week.

Retail sales rose 3.1 percent in December compared with the same month a year ago, according to survey released on Thursday by Thomson Reuters. That was below analysts’ expectations for 3.4 percent increase. Although December sales were less than expected, the overall holiday season was relatively strong, analysts said.

FRIDAY

The Labor Department said Friday that 103,000 new jobs were created in December, causing the unemployment rate to drop to 9.4 percent last month, its lowest level in 19 months. Private employers added a net total of 113,000 jobs in December and the government reduced its payroll by 10,000. But the job growth fell short of most economists expectations. And the drop in the unemployment rate was in part due to the number of unemployed people who simply stopped looking for work.

Also on Friday, Federal Reserve Chairman Ben Bernanke told Congress that there's increasing evidence that a "self-sustaining" economic recovery is taking hold, but he said the Fed's $600 billion Treasury bond buying program (aka “Quantitative Easing 2”) is still needed because it will take years for unemployment to drop to desired levels.

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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