

The Market Week in Review

For the Week Ending July 2, 2011

THE MARKETS

All eyes were on Greece to start the week, as concerns had been intensifying one of the most cash-strapped developed economies in the world willingness to adopt austerity measures in the face of growing civil unrest. But the can was kicked a bit further down the road as Greek lawmakers there adopted legislation that clears the way for another round of bailout payments from the European Union that are needed to keep the country afloat for at least a few more months. The Dow climbed every day this week and finished with a nearly 200-point rally on Friday in response to a better than expected ISM manufacturing report. Treasury ETFs, on the other hand, suffered as the Federal Reserve wrapped up its second installment of bond purchases, a program known as "QE2."

Index	Started Week	Ended Week	Change	% Change	YTD %
DJIA	11,934.58	12,582.77	648.19	5.43%	8.68%
Nasdaq	2,652.89	2,816.03	163.14	6.15%	6.15%
S&P 500	1,268.45	1,339.67	71.22	5.61%	6.52%
Russell 2000	797.79	840.04	42.25	5.30%	7.20%

U.S. core inflation, which excludes food and fuel prices, rose 0.3% in May, the biggest one month increase in the past five years. The annual core inflation rate for the first five months of this year is 2.4%. The increases are triggering concerns that the Federal Reserve's efforts to stimulate the economy could result in both higher rates of inflation and higher interest rates. Some are suggesting that a period of "stagflation", a situation in which the inflation rate is high and the economic growth rate is low, is possible.

DAILY DEVELOPMENTS

MONDAY

The Commerce Department reported on Monday that personal income for May increased by 0.3%, while consumer spending was unchanged during the month. Economists surveyed by Briefing.com had been predicting a 0.4% increase in income and a 0.1% increase in spending. However, core personal consumption expenditures for the month increased by 0.3%, which is greater than the 0.2% increase that Wall Street had been anticipating.

TUESDAY

Home prices rose in April after eight consecutive months of decline, according to the S&P/Case Shiller 20-city index released Tuesday. Prices rose 0.7% compared with March, although they fell 0.1% when adjusted to reflect that spring is traditionally a strong selling

season. Similarly, prices were down 4% on a year over year basis. Foreclosures have declined, resulting in a 16% drop in the number of sales of distressed properties. At the same time, the volume of non-distressed sales rose 11%.

Consumer confidence fell significantly for a second straight month this month, down more than three points to 58.5 from a revised May reading of 61.7. The drop in consumer confidence coincides with weakness in the June employment report. The assessment of the current jobs market this month dropped 0.3%, with 43.8 percent of respondents saying jobs are harder to get this month than last.

WEDNESDAY

The National Association of Realtors released its pending sales of existing homes index for May on Wednesday. The index rose by 8.2 percent to an index level of 88.8. Led by the West and Midwest, all four regions show respectable gains. It also blew past the 3 percent increase forecast by economists who were polled for a Bloomberg News survey. Still, the gain in May fails to offset an even greater decline in April when the index fell a revised 11.3 percent.

THURSDAY

The Labor Department reported on Thursday that initial jobless claims fell by only 1,000 during the week of June 25th, to 428,000. The four-week average was virtually unchanged from the May 28th week. Continuing claims, which lag initial claims by one week, fell 12,000 to 3.702 million.

FRIDAY

The manufacturing index released by the Institute for Supply Management rose to 55.3 in June from 53.5 in May. Economists had expected the index to slip to 51.8. Fifty is the dividing line between expansion and contraction in manufacturing activities. The data, following a strong business outlook index for the Chicago region a day earlier, are strengthening a view in the markets that the U.S. economic recovery is likely to pick up speed after a soft patch in the past few months.

The Thomson Reuters/University of Michigan survey that was released on Friday indicated that consumer sentiment declined in June as expectations about the economy suffered. The index fell to 71.5 at the end of June from 74.3 in May. Economists surveyed by MarketWatch had expected a final reading of 72. The index was pushed lower as consumers were worried by weak employment data and lower stock prices. Together these considerations more than offset the drop in the price of gasoline.

QUOTE OF THE WEEK

"We really haven't seen a recovery in home sales; we've just seen a bottoming out."

Michelle Meyer, a senior economist at Bank of America Merrill 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

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