The Market Week in Review
For the Week Ending July 30, 2011

THE MARKETS

The stock market suffered its biggest weekly decline in a year this week, as the wrangling in Washington continued over the U.S. debt ceiling and weak economic data raised more questions about the strength of the economic recovery. The prospects of resolving the stalemate between the House of Representatives in time to avoid a technical default by the Treasury have dimmed because raising the debt ceiling has become intertwined with the desire to make significant strides toward credible fiscal reform. Couple the above with the possibility of a credit rating downgrade whereby the United States would lose its coveted AAA credit rating and this resulted in an unnerving week for many investors.

Late Friday afternoon the Boehner proposal was approved by the House of Representatives, only to be promptly rejected by the Senate. A committee comprised of Boehner, Reid and McConnell will be trying to hammer out a last minute compromise which it is believed President Obama will sign. Stay tuned because this drama still needs to play out and could very well take some material turns for better or worse.

In light of all the political uncertainty many investors were heading for the exits, driving stock prices lower and pushing bond prices higher. The yield on the 10 year Treasury note dropped (yield goes down as prices rise) by 16 basis points on Friday moving from 2.95% down to 2.79%. The bond vigilantes, which the media holds in such high esteem, were clearly signaling their belief that there will still be a timely resolution of the crisis, as demonstrated by their continued purchasing of U.S. Treasuries.

As for us, we are recommending that clients who have a well balanced portfolio and a long term investment horizon stay the course. This recommendation stems from our firm conviction that the stock market is always looking forward and is a discounting mechanism pointing toward the most likely outcome. Collectively the market is an unemotional handicapper of the most likely outcome with a long term track record that materially outperforms the prognostications of any one individual or group.

As a result, we feel the best response to situations such as the current one is to maintain a consistent asset allocation, and to rebalance your portfolio if warranted due to changes in the relative value of the asset classes in which you are invested.

Index	Started Week	Ended Week	Change	% Change	YTD %
DJIA	12,681.16	12,143.24	-537.92	-4.24%	4.89%
Nasdaq	2,858.83	2,756.38	-102.45	-3.58%	3.90%
S&P 500	1,345.02	1,292.28	-52.74	-3.92%	2.75%
Russell 2000	841.02	797.03	-43.99	-5.23%	1.71%

Standard & Poors and Moody's have both warned that the United States creditworthiness could be downgraded from its current AAA rating if Congress and the President fail to take serious action to address the growing budget deficit. Many market commentators have been suggesting that such a downgrade would be catastrophic for investors.

MONDAY
There were no major economic announcements on Monday.

TUESDAY
New home sales fell 1.0 percent in June to an annual rate of 312,000 according to a Commerce Department report released on Monday. Economists had been expecting a slightly larger decline of 321,000. Supply also declined to 6.3 months at June's sales rate which is slightly lower than 6.4 and 6.5 in the two prior months. The median price of a new home increased 7.2 percent to $235,200 as compared to June 2010. However the number of new homes for sale totaled just 164,000, down 3,000 in the month and a new low in nearly 50 years of data.

The Conference Board's consumer confidence index rose to 59.5 from a revised 57.6 reading in June that was lower than previously estimated, figures from the New York based private research group showed. Economists predicted the July gauge would fall to 56, according to the median forecast in a Bloomberg News survey. Lower gas prices are credited with being the primary reason for the improvement, although the survey also indicated that more respondents expected the availability of jobs would improve in the next six months, and a larger proportion of survey participants expect their incomes to rise during that time frame.

WEDNESDAY
New factory orders for durable goods in June fell 2.1 percent, following a rebound of 1.9 percent the prior month (as adjusted). The June figure came in below the median forecast which had been calling for a 1.0 percent rise. Excluding transportation, durables edged up 0.1 percent after rebounding 0.7 percent in May. Transportation was the weakest component, dropping a sharp 8.5 percent, following a 5.8 percent rebound in May. Motor vehicles slipped 1.4 percent, nondefense aircraft dropped 28.9 percent, and defense aircraft fell 20.5 percent.

THURSDAY
The Labor Department announced Thursday that initial jobless claims dropped by 24,000 during the week ending July 23rd to 398,000 for a weekly reading below 400,000 which has not occurred since early April. The four-week average also fell by 8,500 to 413,750, which amounts to a nearly 15,000 improvement from last month. Continuing claims were also down 17,000 in the July 16 week to 3.703 million.

FRIDAY
The Bureau of Economic Analysis reported Friday that real gross domestic product in the U.S. increased at an annual rate of 1.3% in the second quarter of 2011, primarily as a result of a slowdown in import demand, stronger federal spending, and a pickup in non-residential fixed investment. Real gross domestic purchases - GDP minus net exports – increased by 0.7% on the quarter and matching the pace seen in the first quarter. The pace of personal consumption expenditures rose a meek 0.1% in the second quarter compared to +2.1% in the first quarter. Sales of durable goods decreased 4.4% over the quarter, in part due to the disruption to auto production that resulted from the earthquake in Japan. Overall the report seems to confirm our belief that the economy is improving, but domestic demand is very weak due in no small measure to the continuing high unemployment rate.

QUOTE OF THE WEEK

> "You can always count on the Americans to do the right thing – after they have tried everything else."
>
> Winston Churchill

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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