

The Market Week in Review

For the Week Ending June 4, 2011

THE MARKETS

The equity markets had a tough week as a variety of discouraging news raised concerns once again about the underlying strength of the economic recovery. While the bulk of this week's decline occurred Wednesday as stocks dropped 2.2%, perhaps the most disconcerting data came from the Labor Department on Friday when it reported that the unemployment rate rose to 9.1%. As a result pressure is building on the Obama administration and Congress to delay federal spending cuts, which some economists believe will harm what is now seen by many as a fragile economic recovery. Oil prices ended the week at \$100.22 a barrel.

| Index | Started Week | Ended Week | Change | % Change | YTD % |
|--------------|--------------|------------|---------|----------|-------|
| DJIA | 12,441.58 | 12,151.26 | -290.32 | -2.33% | 4.96% |
| Nasdaq | 2,796.86 | 2,732.78 | -64.08 | -2.29% | 3.01% |
| S&P 500 | 1,331.10 | 1,300.16 | -30.94 | -2.32% | 3.38% |
| Russell 2000 | 836.26 | 808.13 | -28.13 | -3.36% | 3.12% |

Two years have passed since the Great Recession ended, but the U.S. recovery is weak. A survey by The Pew Charitable Trusts found that 55% of Americans think the U.S. economy is poor. Previously, deep U.S. recessions were followed by robust rebounds, but that's not happening this time.

DAILY DEVELOPMENTS

MONDAY

The markets were closed Monday in observance of the Memorial Day holiday.

TUESDAY

Home prices in big metro areas have sunk to their lowest since 2002, according to the Standard & Poor's/Case-Shiller 20-city monthly index released on Tuesday. The index, which covers metro areas that include about 70 percent of U.S. households, is updated every quarter and provides a three-month average. Prices fell from February to March in 18 of the 20 metro areas tracked by the index. The overall index fell for the eighth straight month and has dropped 3.6 percent in the past year. Since the bubble burst in 2006, prices have fallen more than they did during the Great Depression. After adjusting for inflation, the home-price index has sunk to the level of 1999.

It's no wonder then that the Conference Board's Consumer Confidence Index fell sharply. The latest survey was released Tuesday morning and came in at 60.8, which is significantly lower than the consensus estimate of 66.3, reported by Briefing.com, and a sharp decline from April's revised 66.0 reading. It is also the lowest reading since December 2010.

WEDNESDAY

The Institute for Supply Management index of activity in manufacturing – the purchasing managers' index, or PMI – declined from 60.4 in April to 53.5 in May. While readings above 50 indicate an expanding economy, prior to the announcement economists were expecting the index to decline to 57. May was the third straight month that the index declined. It was also the biggest one month drop since 1984 and the lowest reading in 13 months.

THURSDAY

Thomson Reuters news agency reported on Thursday that retail sales at the 25 national retailers it surveys each month rose 4.9 percent in May, which was slightly below the 5.4 percent that analysts had been forecasting. It was also less than the 8.9 percent growth in April, which was one of the biggest increases for the index in the last few years. "There is a shakiness in the overall economy and it is being reflected in the numbers that are coming in from retailers," said Janet Hoffman, managing director of the retail practice at Accenture. "The cards are stacked against the consumer right now and retailers will have to work hard to bring them into stores." Sales at discount stores that have been open at least a year grew by 7.8 percent in May, the best showing by any group of retailers last month.

FRIDAY

The Labor Department reported on Friday that the nation added 54,000 nonfarm payroll jobs last month, after an increase of about 220,000 jobs in each of the three previous months. The gain in May was about a third of what economists had been forecasting. The unemployment rate, meanwhile, edged up to 9.1 percent from 9.0 percent in April. State and local governments, struggling with severe budget shortfalls, continued to shed jobs in May. And while private employers continued to add jobs, the pace of hiring fell to its lowest level in a year. The long-term unemployed (i.e., those workers unemployed 27 weeks or more) now account for 45.1% of the unemployed versus 43.1% in April.

QUOTE OF THE WEEK

"Consumers are considerably more apprehensive about future business and labor market conditions as well as their income prospects. Inflation concerns, which had eased last month, have picked up once again."

Lynn Franco, Director of The Conference Board Consumer Research Center.

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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