

The Market Week in Review

For the Week Ending May 21, 2011

THE MARKETS

It was not a good week for the equity markets, as most of the economic data was worse than what market observers had been expecting. As a result all 4 of the major indexes lost ground during the week. World news also played a role as civic unrest continued in Syria and President Obama stirred the pot in the Middle East by suggesting Israel should return to its pre-1967 war borders.

Crude oil prices declined 0.2% this week in response to macroeconomic data pointing to a still-ailing U.S. economy and calling into question demand for crude. June gold futures on the Comex division of the New York Mercantile Exchange settled at \$1,508.90 an ounce, up 1.024% on the week. July silver futures settled at \$35.087 an ounce up 0.211% on the week.

Index	Started Week	Ended Week	Change	% Change	YTD %
DJIA	12,595.75	12,512.04	-83.71	-0.66%	8.07%
Nasdaq	2,828.47	2,803.32	-25.15	-0.89%	5.67%
S&P 500	1,337.77	1,333.27	-4.50	-0.34%	6.01%
Russell 2000	835.67	829.06	-6.61	-0.79%	5.79%

There are many ways to talk about “fair” taxation but in the end, they don't mean very much, according to The Economist. “If you live in a developed country your taxes will probably increase,” the magazine noted. “Politicians won't necessarily tell you this. They would rather pretend that someone else will pay for our profligacy.”

DAILY DEVELOPMENTS

MONDAY

Confidence amongst U.S. home builders in the demand for newly built, single-family homes remained unchanged in May according to a report released by the National Association of Home Builders released Monday. The index has come in at 16 for six of the last seven months. Analysts had expected a rise to 17 points. Competition from distressed sales, the unavailability of credit and a lack of confidence amongst homeowners that they will be able to sell their existing home at a favorable price have combined to keep the demand for new homes at very low levels.

TUESDAY

Tuesday's report from the Commerce Department says housing starts fell nearly 11 percent in April. Building permits fell to an annualized rate of 551,000 from 574,000 permits, but

economists polled by Briefing.com had expected an annualized rate of approximately 590,000 permits. U.S. builders started construction on fewer homes in April due to a glut of unsold homes that cut demand for new housing units. "The terrible housing numbers added to worries about the economy and demand destruction," said Phil Flynn, vice president of research at PFGBest in Chicago. "We're facing what could be the biggest washout since 2008, especially if the dollar continues to rally."

Total U.S. manufacturing fell 0.4 percent according to a Federal Reserve report issued on Tuesday. Economists had forecast a 0.4 percent gain in industrial production, according to the median estimate in a Bloomberg News survey. However manufacturing rose 0.2 percent excluding automobiles, according to the report. Domestic auto production is being hampered by the Japanese earthquake because of the shortage of parts manufactured in Japan.

WEDNESDAY

The Federal Reserve Open Market Committee released the minutes from its April 27th meeting on Wednesday. The minutes indicate that the Fed is becoming increasingly concerned about inflation. Committee members expressed concern that if oil prices continue to rise, the increases would have a trickle effect and push other prices higher. Members also are worried that an inflationary mindset could take hold, also pushing prices higher. As a result consideration is being given to raising the rates the Federal Reserve charges banks on overnight loans from their current levels, which are near 0. However, the minutes stressed that the April discussion did not indicate the Fed was ready to start tightening the policy in the near future, and oil prices have dropped sharply since the meeting.

THURSDAY

The Department of Labor announced Friday that initial claims for unemployment insurance fell by 29,000 last week to 409,000. However, last week's number was revised up by 4,000. This was better than the expected level of 420,000. The trend in initial claims has been downward overall, although there have been some bumps along the way.

The index of U.S. leading economic indicators unexpectedly dropped 0.3% in April, the first decline since June 2010, according to data released by the Conference Board on Thursday. This follows a revised 0.7% gain in March the Conference Board said. Economists surveyed by Dow Jones Newswires had expected no change in the April index. Ken Goldstein, economist at the board, said, "Economic growth will likely continue through the summer and fall, but the pace of economic activity may be choppy."

Existing home sales dropped 0.8% to a seasonally adjusted rate of 5.05 million in April from March, the National Association of Realtors reported. They were down 13 percent from a year earlier, when a federal home-buyer tax credit ignited a buying frenzy. As sales fell, the supply of for-sale homes rose 9.9 percent to 3.87 million in April, and the national median existing-home price plunged 5 percent to \$163,700 from a year ago.

Good news on the housing front came from the Mortgage Bankers Association. It announced Thursday that loans that are at least 90 days late or in foreclosure declined to approximately 8.1% of outstanding mortgage loans. This is the lowest level since early 2009. Even so, more than 4 million households remain at serious risk of losing their homes.

FRIDAY

There were no major economic announcements on Friday.

QUOTE OF THE WEEK

"The Syrian people have shown their courage in demanding a transition to democracy. President Assad now has a choice: He can lead that transition or get out of the way."

President Obama during a speech on U.S. policy in the Middle East and North Africa.

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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