

The Market Week in Review

For the Week Ending May 28, 2011

THE MARKETS

Concerns about Europe dominated trading in the early part of the week, as stock prices fell sharply lower after Standard & Poor's cut its ratings outlook on Italy from stable to negative and following weaker than expected manufacturing PMI data in both China and Europe. But U.S. markets stabilized on Tuesday and experienced modest rebounds on Wednesday, Thursday and Friday to close around unchanged on the week.

As a reminder, U.S. markets will be closed on Monday in observance of Memorial Day.

Index	Started Week	Ended Week	Change	% Change	YTD %
DJIA	12,512.04	12,441.58	-70.46	-0.56%	7.46%
Nasdaq	2,803.32	2,796.86	-6.46	-0.23%	5.43%
S&P 500	1,333.27	1,331.10	-2.17	-0.16%	5.84%
Russell 2000	829.06	836.26	7.20	0.87%	6.71%

DAILY DEVELOPMENTS

MONDAY

The Federal Reserve Bank of Chicago's National Activity Index (CFNAI) (a monthly index designed to gauge overall economic activity and related inflationary pressure) registered at -0.45 in April, down sharply from +0.32 in March. The index's three-month moving average declined to -0.12 in April from +0.08 in March, turning negative for the first time since December 2010.

TUESDAY

The Commerce Department reported on Tuesday that new home sales grew by 7.3 percent to a seasonally adjusted yearly rate of 323,000. The April increase follows an 8.3 percent increase in March sales which climbed 15.1 percent in the West, 7.7 percent in the Northeast, 4.9 percent in the Midwest, and 4.3 percent in the South. However, there is little reason for real estate agents to celebrate, given that only 175,000 new homes are currently up for sale. This is the lowest number of new homes for sale since 1963, which is when the Commerce Department began to keep track of this statistic.

WEDNESDAY

The Commerce Department said Wednesday that durable good orders (new orders for U.S. made products designed to last three years or more, such as autos or appliances) dropped 3.6 percent last month. It was the biggest decline since October. Economists surveyed by MarketWatch had expected orders to fall 3.0 percent. Transportation orders led the decline as Boeing Co. reported far fewer bookings for aircraft in April compared to March.

At the same time the auto business was hurt by a disruption in supplies related to Japan's March 11th earthquake.

In addition, several regional surveys show that manufacturing growth appears to have tapered recently. Using a rolling average to smooth out seasonal swings and other special factors, orders have fallen an average of 0.3 percent in the past three months, compared with a 2.4 percent increase in the March to January period.

THURSDAY

Initial jobless claims rose 10,000 in the May 21st week to 424,000, which is approximately 20,000 higher than what had been widely expected. The four-week average of 438,500 is nearly 30,000 higher than a month ago. The Labor Department did not suggest that the increase was due to any weather or auto-related factors.

The Commerce Department released its second estimate for quarter GDP growth on Thursday. The estimate is for GDP to grow by just 1.8 percent in 2011 (annualized) which is lower than the consensus forecast for 2.1 percent. The first quarter remains notably softer than the 3.1 percent pace in the fourth quarter of 2010.

FRIDAY

Personal income increased \$46.1 billion, or 0.4 percent, and disposable personal income (DPI) increased \$35.1 billion, or 0.3 percent, in April, according to a Commerce Department report released on Friday. Both increases were in line with what most economists had predicted. The report also showed that disposable personal income, or personal income less personal current taxes, increased by 0.3 percent in April compared to a 0.4 percent increase in March.

The National Association of Realtors announced on Friday that April's pending home sales index fell nearly 11 points to 81.9, down 11.6 percent from a downward revised 92.6 in March. Regionally the decline is centered in the largest region which is the South where pending sales fell more than 17 percent. A year ago, contracts surged as April 2010 was the last month in which buyers could sign a contract and qualify for a federal tax credit. Home sales and prices have been weak since that credit expired and foreclosures have continued to make up a big chunk of the market, holding down prices.

The Thomson Reuters/University of Michigan Consumer Sentiment index rose to 74.3 this month. Economists polled by MarketWatch had estimated a final May figure of 72.5. The gauge, which calculates how consumers observation their personal funds, in addition to business and buying circumstances, had declined in both March and April as consumers became more concerned about higher petrol prices and inflation. While the uptick in May was a pleasant surprise, the index averaged 87 in the year before the beginning of the most recent quarter.

QUOTE OF THE WEEK

"It's the one thing we have seen in our adult lives that could take us away from imported oil. What if we have found three of the world's biggest oil fields in the last three years right here in the U.S.? How transformative could that be for the U.S. economy?"

Aubrey McClendon, chief executive of Chesapeake Energy, an oil and gas producer that uses hydraulic fracturing.

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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