The Market Week in Review
For the Week Ending October 15, 2011

THE MARKETS

A boatload of positive economic announcements suggested that all of the hand wringing in September about the U.S. economy being on the verge of a second recession may have been premature. The good news pushed all 4 of the major market indexes sharply higher this week. In fact, as of Friday's close in October the Dow Jones Industrial Average is up by 731.11 points, the S&P 500 index of large cap companies is up 93.16 points, the tech heavy Nasdaq has gained 252.45 points, and the small cap Russell 2000 index is up 68.30. These gains have erased most if not all of September's declines and have put all four of the indexes in positive territory year to date.

Index	Started Week	Ended Week	Change	% Change	YTD %
DJIA	11,103.12	11,644.49	541.37	4.88%	0.58%
Nasdaq	2,479.35	2,667.85	188.50	7.60%	0.56%
S&P 500	1,155.46	1,224.58	69.12	5.98%	-2.63%
Russell 2000	656.21	712.46	56.25	8.57%	-9.08%

August data on U.S. trade and unemployment show modest improvement, as the trade deficit narrowed and the number of initial unemployment claims was steady. Retail sales in September were better than expected, and business inventories increased, suggesting corporate America expects better times ahead.

DAILY DEVELOPMENTS

MONDAY
The U.S. stock market soared on Monday following an announcement that German Chancellor Angela Merkel and French President Nicolas Sarkozy had agreed on a plan for the recapitalization of the European banking sector by early November. However, some economists worried that the lack of details could indicate that significant disagreements remain.

TUESDAY
Pessimism eased slightly among small businesses in September according to a survey released Wednesday by the National Federation of Independent Business. Its Small Business optimism index rose 0.8 points last month to 88.9, which is still considered to be quite low. In fact, even with the gain, the NFIB said the index remains at a "solid recession reading".

WEDNESDAY
Inspectors from the "the troika" of international lenders (the European Union, International Monetary Fund and European Central Bank) announced that Greece's progress toward narrowing its budget deficit is sufficient to qualify the country for the release of 8 billion Euros (the equivalent of 10.8 billion dollars) in financial aid Greece needs by mid-November in order to avoid default. Tougher austerity measures will be needed in 2013 and 2014, the inspectors said.

Minutes of the September 20th – 21st meeting of the Federal Open Market Committee were released on Wednesday. They indicated that 3 members were opposed to "Operation Twist" (which involves selling $400 billion in short-term treasuries in exchange for the same amount of longer-term bonds, starting in October and ending in June 2012) because they felt that it wouldn't do much to spur economic growth while raising the risk of inflation in the future. At the same time, "a number" of the members thought that the Fed ought to be buying more securities because doing so would constitute "a more potent tool that should be retained as an option in the event that further policy action to support a stronger economic recovery was warranted". The minutes also indicated that the Fed officials were generally downbeat about the economy. While most did not anticipate a recession, several noted that, "with growth slow, the recovery was more vulnerable to shocks".

THURSDAY
The Commerce Department reported on Thursday that the trade deficit for August was virtually unchanged from July, as the value of imports and exports was nearly unchanged. More specifically, the report showed a trade deficit of $45.61 billion in August compared to a revised deficit of $45.63 billion in July. Economists had expected the deficit to widen to $46.0 billion from the $44.8 billion originally reported for July. While the value of exports slipped by 0.1 percent to $177.6 billion in August from $177.7 billion in July, the value of imports edged down by less than a tenth of a percent to $223.2 billion from $223.3 billion in the previous month.

Similarly, the number of new people applying for unemployment benefits last week was virtually unchanged from the week prior, according to a report issued by the Labor Department on Thursday. Applications declined by 1,000 to 404,000 on a seasonally adjusted basis, according to the report. The four-week average declined for the third straight week to 408,000, which amounts to the lowest that measurement has been in eight weeks. However, economists advise that the number of first time filers would have to fall below 375,000 to signal sustainable job growth, a level that has not been reached since February.

FRIDAY
Retail sales grew at their fastest pace in seven months in September giving a bit more momentum to the economic recovery, according to a report issued by the Commerce Department on Friday. That report said that retail sales rose 1.1 percent from August

levels, in part due to strong auto sales. The reading beat the median forecast in a Reuters poll for a 0.7 percent rise. At the same time sales growth during August was revised upwardly to 0.3 percent.

In a separate report the Commerce Department also announced Friday that business inventories increased 0.5 percent in August, matching the July gain. Total business inventories rose to $1.54 trillion, 16.6 percent higher than their low hit in September 2009.

October's Thomson Reuters/University of Michigan preliminary index of consumer sentiment unexpectedly decreased to 57.5 this month from 59.4 in September. The median estimate of economists surveyed by Bloomberg News called for a reading of 60.2. However we suspect the small decline has more to do with what's happening (or more specifically what's not happening) in Washington than it does with consumer's view of the economy.

TIDBITS

Beginning this week, we will on occasion substitute what we believe are interesting odds and ends regarding the economy and the markets. We hope you enjoy this addition to our weekly Market Commentary.)

A recent survey by the *Professional Risk Managers' International Association* listed the following financial results:

- 49% of respondents do not expect housing prices to go back to 2007 levels for another nine years.
- 73% of surveyed bankers said they expect mortgage defaults to remain elevated for at least another five years.
- 46% believe mortgage delinquencies will increase over the next six months.
- 15% expect mortgage delinquencies to decline in the next six months.
- 64% of respondents expect credit card usage to remain below pre-recession levels for at least five years.

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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