The Market Week in Review
For the Week Ending December 15, 2012

THE MARKETS

The stock market's momentum carried over from last week as investors were hopeful that a deal would be reached on the "fiscal cliff". The S&P rallied for a fifth straight day on Tuesday reaching its highest level in over a month, but finished off session highs after Senate Majority Leader Harry Reid cast doubt that a deal would be reached before Christmas. Stocks pulled back from earlier gains to finish the day relatively flat on Wednesday after Fed Chairman Ben Bernanke announced the plan to replace the Operation Twist program, that expires at the end of the year, with a new round of Treasury and mortgage-backed bond purchases. The reversal continued through the end of the week with the Dow dropping for three straight days and stocks trading in a tight range amidst all of the uncertainty.

Index	Started Week	Ended Week	Change	% Change	YTD %
DJIA	13,155.13	13,135.01	-20.12	-0.15%	7.51%
Nasdaq	2,978.04	2,971.33	-6.71	-0.23%	14.06%
S&P 500	1,418.07	1,413.58	-4.49	-0.32%	12.40%
Russell 2000	822.27	823.75	1.48	0.18%	11.18%

DAILY DEVELOPMENTS

MONDAY
There were no major economic announcements on Monday.

TUESDAY
The Commerce Department reported on Tuesday that the trade deficit increased in September to $42.2 billion from $40.3 billion in September, as weakness in Europe and Japan resulted in a decline in exports. All major categories of goods exported showed weakness, and a decline in global trade is causing sluggishness in U.S. manufacturing. Equally concerning was a decline in imports which could be bad news for global economic growth.

WEDNESDAY
The Federal Reserve announced during the Federal Open Market Committee (FOMC) meeting that kicked off on Wednesday that it will leave policy rates unchanged and continue with its Fed Funds target rate of zero to 0.25 percent. The big news, however, was the news that Fed interest rate policy will be tied to economic indicators. The plan is to keep rates exceptionally low as long as the unemployment rate remains above 6 1/2 percent and inflation stays in line with their long run goal of 2 1/2 percent.

THURSDAY
The Labor Department reported that new claims for unemployment benefits fell 29,000 last week to 343,000, which marks the fourth straight week of major declines and the lowest level since early October. However, given the distortions caused by Hurricane Sandy it is still unclear whether or not the job market is actually improving.

The Labor Department delivered more good news in a separate report on inflation. It indicated Producer Price Inflation (PPI) dropped 0.8 percent in November, following a decline of 0.2 percent in October. Core inflation, which excludes food and energy, increased slightly by 0.1 percent to a seasonally adjusted 2.2 percent following a decline in October of 0.2 percent to 2.3 percent.

FRIDAY
Much like the PPI inflation number reported on Thursday, Consumer Price Inflation (CPI) dropped in November. CPI inflation fell 0.3 percent following a slight increase of 0.1 percent in October, led by declines in energy and gasoline prices. The year on year CPI inflation figure for November was 1.8 percent, down from the 2.2 percent reading in October.

Also on Friday the Fed's Board of Governors announced industrial production bounced back in November, registering an increase of 1.1 percent. The improvement comes on the heels of a 0.7% decline in October. The recovery from Hurricane Sandy and an uptick in auto assemblies contributed to the increase. Manufacturing has experienced wide swings over the past few months due to the storm, and November's numbers show softness in the sector overall.

TIDBITS

The Fed's "Operation Twist" – selling short-term Treasury securities and buying long-term bonds – is scheduled to come to a close at the end of this year. According to a report from the Federal Reserve Bank of Richmond, "The Fed has replaced $667 billion in short-term Treasuries on its balance sheet with an equivalent amount in longer-term Treasuries" since September 2011. 52% of economists surveyed by the *WSJ* said the Fed should end the debt purchases. "It's distorting market prices and creating problems in the future," says Wells Fargo's John Silvia.

QUOTE OF THE WEEK

"Many firms have simply found they can thrive with smaller workforces. After shedding 7.5 million jobs during the Great Recession, the economy is still 4.5 million jobs in the hole."
-- Vanguard *Economic Week in Review*.

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

Andrew J. Willms, J.D. LL.M.
Estate Counselors, LLC
414 N. Main Street
Thiensville, WI 53092
Phone (262) 238-6996
Fax (262) 238-6999
awillms@estatecounselors.com
www.estatecounselors.com