The Market Week in Review
For the Week Ending January 19, 2013

THE MARKETS

The sluggishness in the stock market from last week carried over early in the week and investors remained sidelined ahead of a busy week in earnings and a speech from Fed Chairman Ben Bernanke on Monday. The Dow Jones broke its five day winning streak on Wednesday after some uninspiring earnings reports from large U.S. banks and amidst concerns over the debt ceiling. Better than expected employment numbers and housing starts helped boost stocks on Thursday and the S&P 500 finished at its highest level in over five years. An otherwise uneventful day on Friday finished with stocks inexplicably jumping in the final minutes of trading. This week's economic numbers, which mostly met or exceeded expectations, helped all three major averages finish positive for the third straight week. The CBOE Volatility Index (VIX), which is considered the best indicator of fear in the market, fell to its lowest level since April 2007. This suggests that investor confidence is returning to the market.

Index	Started Week	Ended Week	Change	% Change	YTD %
DJIA	13,488.43	13,649.70	161.27	1.20%	4.16%
Nasdaq	3,125.63	3,134.71	9.08	0.29%	3.82%
S&P 500	1,472.05	1,485.98	13.93	0.95%	4.19%
Russell 2000	880.77	892.80	12.03	1.37%	5.12%

DAILY DEVELOPMENTS

MONDAY
There were no major economic announcements on Monday.

TUESDAY
The Producer Price Index (PPI) dropped 0.2 percent in December following a dip of 0.8 percent in November. The December number was lower than the consensus forecast of a 0.1 percent decline and the Bureau of Labor Statistics credited the decline to a drop in energy, food and capital goods prices. Food inflation declined 0.9 percent following a spike of 1.3 percent in November and energy costs fell by 0.3 percent following a significant drop of 4.6 in November.

The Commerce Department reported on Tuesday that consumer spending beat expectations during the holidays with a 0.5 increase in retail sales in December versus the market expectations for a 0.2 percent increase. Auto sales were up considerably and beat expectations while ex-auto sales met expectations with a 0.3 percent increase. Excluding autos and gasoline components, sales across the board matched November's pace of a healthy 0.6 percent increase.

WEDNESDAY

The Consumer Price Index (CPI) report released by the Department of Labor on Wednesday showed that inflation remained constrained in December. CPI inflation increased slightly to 1.8 percent up from 1.7 percent in November. Energy prices continued their decline and fell by 1.2 percent in December following a sharp drop of 4.1 percent in November and gasoline prices decreased by 2.3 percent after tumbling 7.4 percent in November. With inflation seemingly under wraps the Fed can focus their efforts on bringing down unemployment.

Industrial production beat expectations in December by advancing 0.3 percent versus the 0.2 percent projected by analysts. The manufacturing component saw a boost of 0.8 percent and was led by motor vehicle production which increased by 2.6 percent after a 5.8 percent jump in November. Manufacturing overall continues to improve suggesting the economic recovery continues to gain momentum.

THURSDAY

While jobless claims are showing some signs of improvements, the Labor Department warns that the data is especially volatile this time of year. Initial claims showed a significant improvement last week with a drop of 37,000 to 335,000, which was well below the expectations of 368,000. Continuing claims had been trending lower prior to an increase for the January 5th week of 87,000 to 3.214 million. Until the seasonal adjustments and the residual effects of Hurricane Sandy have subsided this data continues to be an unreliable gauge of the overall labor market.

The Department of Commerce reported an increase of 12.1 percent in housing starts in December following a drop of 4.3 percent in November. Both the multifamily and single-family components experienced increases of 20.3 and 8.1 percent respectively. All four regions in the U.S. experienced a boost in starts with the Midwest's 24.7 percent jump leading the way. These numbers are a positive sign for a housing market that appears to be recovering faster than expected.

FRIDAY

Consumer sentiment is relatively flat through mid-January said the Institute for Social Research (ISR) on Friday. The reading of 71.3 is 1.6 points below December's full month reading but is in line with the low 70s trend in late December. Recent increases in oil prices are causing some inflation concerns for consumers and as a result the one-year inflation expectations are up two tenths to 3.4 percent. However, the primary drag on sentiment is the ongoing debt-ceiling debate and the upcoming budget cuts.

TIDBITS

Fed Chairman Ben Bernanke emphasized the importance of addressing the debt ceiling during a speech on Monday. He stated that increasing the debt ceiling does not increase government spending but rather allows the federal government to pay its outstanding bills. He also acknowledged that while averting the "fiscal cliff" was the right step in working out our country's fiscal problems, the primary focus should now be finding a long-term solution to our debt sustainability without impeding the economic recovery.

QUOTE OF THE WEEK

"I'll tell you a plan for gaining wealth,
Better than banking, trade or leases,
Take a bank note and fold it up,
And then you will find your money in creases!
This wonderful plan, without danger or loss,
Keeps your cash in your hands, where nothing can trouble it;
And every time that you fold it across,
'Tis as plain as the light of the day that you double it!"
-Edgar Allan Poe

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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