

## Recap Of The Financial Markets

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Week Ended December 18<sup>th</sup>, 2009

Stocks were mixed this past week as the dollar surged, pushing commodity based stocks lower. However, the broader market, including the NASDAQ Composite, Russell 2000 and DJ Wilshire 5000 were higher. All in all, the stock market has been stuck in the upper end of a recent trading range. At this time, we believe 2010 will be one in which “we brood about the ills of easy money even as we fear the inevitable withdrawal of such federal benefaction. And we will worry about this economic recovery falling short of our recovering expectations.” However, we believe that there will be enough positive corporate and economic data to support stock prices at these levels. 2009 should end at or around these levels as portfolio managers, after a dreadful 2008, are likely to not cash out and perhaps miss a year-end rally. It is for this reason that at least for the balance of 2009, we believe the downside is most likely limited. Of course, after a more than fifty-eight percent run-up in all of the major averages with not even one correction of more than ten percent, a correction is rational, necessary, overdue and could occur at any time.

| Index               | Weekly Change | Closing Value | % Change Prior Week | Year-to-Date % Change | Trailing 12 Mo. % Change |
|---------------------|---------------|---------------|---------------------|-----------------------|--------------------------|
| Dow Jones Ind. Avg. | -142.61       | 10328.89      | -1.36%              | +17.69%               | +20.40%                  |
| S&P 500             | -3.94         | 1102.47       | -0.36%              | +22.06%               | +24.17%                  |
| NASDAQ Comp.        | +21.38        | 2211.69       | +0.98%              | +40.24%               | +41.38%                  |
| DJ Wilshire 5000    | +10.65        | 11355.11      | +0.09%              | +24.96%               | +27.24%                  |
| Russell 2000        | +10.20        | 610.57        | +1.70%              | +22.25%               | +25.56%                  |
| Dow Utilities       | -2.61         | 402.48        | -0.64%              | +8.56%                | +10.50%                  |
| Dow Transports      | +34.71        | 4128.53       | +0.85%              | +16.72%               | +21.80%                  |

| Index               | Closing Record High | Date of Closing Record High | % from Prior Record High | March 9 <sup>th</sup> , 2009 Closing Low | % From Closing Low Mar 9, 2009 |
|---------------------|---------------------|-----------------------------|--------------------------|--|--------------------------------|
| Dow Jones Ind. Avg. | 14164.53            | 9-Oct-2007                  | 27.08%                   | 6547.05                                  | 57.76%                         |
| S&P 500             | 1565.15             | 9-Oct-2007                  | 29.56%                   | 676.53                                   | 62.96%                         |
| NASDAQ Comp         | 5048.62             | 10-Mar-2000                 | 56.19%                   | 1268.24                                  | 74.39%                         |
| DJ Wilshire 5000    | 15806.69            | 9-Oct-2007                  | 28.16%                   | 6858.43                                  | 65.56%                         |
| Russell 2000        | 855.70              | 13-July-2007                | 28.65%                   | 343.26                                   | 77.87%                         |
| Dow Utilities       | 552.74              | 10-Dec-2007                 | 27.18%                   | 290.68                                   | 38.46%                         |
| Dow Transports      | 5446.49             | 19-July-2007                | 24.20%                   | 2146.89                                  | 92.30%                         |

| Index               | Close on Dec 31, 1999 | Post Attack Low Sept 21, 2001 | Year End 2007 Close | Year End 2008 Close | 2008 Change |
|---------------------|-----------------------|-------------------------------|---------------------|---------------------|-------------|
| Dow Jones Ind. Avg. | 11497.12              | 7926.90                       | 13,264.82           | 8,776.39            | -33.84%     |
| S&P 500             | 1469.25               | 944.75                        | 1,468.36            | 903.25              | -38.49%     |
| NASDAQ Comp.        | 4069.31               | 1387.06                       | 2,652.28            | 1,577.03            | -40.54%     |
| DJ Wilshire 5000    | 13812.70              | 8900.45                       | 14,819.58           | 9,087.17            | -38.68%     |
| Russell 2000        | 504.75                | 378.89                        | 766.03              | 499.45              | -34.80%     |
| Dow Utilities       | 283.36                | 316.19                        | 532.53              | 370.76              | -30.38%     |
| Dow Transports      | 2977.20               | 2054.84                       | 4,570.55            | 3,537.15            | -22.61%     |

| Index               | Post-Attack Closing High | % from Post Attack Close High | Post-Attack High to March 9 <sup>th</sup> Closing Low | Post Bear Market Closing High | % from Post Bear Market Closing High |
|---------------------|--------------------------|-------------------------------|---|-------------------------------|--------------------------------------|
| Dow Jones Ind. Avg. | 14164.53                 | 27.08%                        | 53.78%  | 10501.05                      | 1.64%                                |
| S&P 500             | 1565.15                  | 29.56%                        | 56.78%  | 1114.11                       | 1.04%                                |
| NASDAQ Comp.        | 2859.12                  | 22.64%                        | 55.64%  | 2212.10                       | 0.02%                                |
| DJ Wilshire 5000    | 15806.69                 | 28.16%                        | 56.61%  | 11439.74                      | 0.74%                                |
| Russell 2000        | 855.70                   | 28.65%                        | 59.89%  | 622.34                        | 1.89%                                |
| Dow Utilities       | 552.74                   | 27.18%                        | 47.41%  | 406.72                        | 1.04%                                |
| Dow Transports      | 5446.49                  | 24.20%                        | 60.58%  | 4174.63                       | 1.10%                                |

| MARKET INTERNALS                     |                      |                      |                      |                      |                      |                      |  |
|--------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|--|
|                                      | Friday               | Monday               | Tuesday              | Wednesday            | Thursday             | Friday               |  |
| Date                                 | Dec 11 <sup>th</sup> | Dec 14 <sup>th</sup> | Dec 15 <sup>th</sup> | Dec 16 <sup>th</sup> | Dec 17 <sup>th</sup> | Dec 18 <sup>th</sup> |  |
| <i>Dow Change</i>                    | +65.67               | +29.55               | -49.05               | -10.88               | -132.86              | +20.63               |  |
| <i>NYSE Volume</i>                   | 1.024 b              | 1.076 b              | 1.179 b              | 1.166 b              | 1.718 b              | 2.679 b              |  |
| <i>Mkt Vol Index (^vix)</i>          | 21.59                | 21.15                | 21.50                | 20.54                | 22.57                | 21.68                |  |
| <i>NASDAQ Close</i>                  | <b>2190.31</b>       | <b>2212.10</b>       | <b>2201.05</b>       | <b>2206.91</b>       | <b>2180.05</b>       | <b>2211.69</b>       |  |
| <i>NASDAQ Change</i>                 | -0.55                | +21.79               | -11.05               | +5.86                | -26.86               | +31.64               |  |
| <i>NASDAQ Volume</i>                 | 1.762 b              | 1.862 b              | 1.983 b              | 2.115 b              | 1.934 b              | 3.203 b              |  |
| <i>NASDAQ Vol Index (^vxn)</i>       | 22.38                | 22.03                | 22.46                | 21.95                | 22.84                | 21.78                |  |
| <i>S&amp;P 500 Close</i>             | <b>1106.41</b>       | <b>1114.11</b>       | <b>1107.93</b>       | <b>1109.18</b>       | <b>1096.08</b>       | <b>1102.47</b>       |  |
| <i>S&amp;P 500 Change</i>            | +4.05                | +7.70                | -6.18                | +1.25                | -13.10               | +6.39                |  |
| <i>Russell 2000 Close</i>            | <b>600.37</b>        | <b>609.79</b>        | <b>606.31</b>        | <b>611.21</b>        | <b>604.25</b>        | <b>610.57</b>        |  |
| <i>Russell 2000 Change</i>           | +4.99                | +9.42                | -3.48                | +4.90                | -6.96                | +6.32                |  |
| <i>Wilshire 5000 Close</i>           | <b>11344.46</b>      | <b>11439.74</b>      | <b>11385.39</b>      | <b>11412.62</b>      | <b>11281.00</b>      | <b>11355.11</b>      |  |
| <i>Wilshire 5000 Change</i>          | +48.22               | +95.28               | -54.35               | +27.23               | -131.62              | +74.11               |  |
| <i>Dow High (a)</i>                  | 10484.05             | 10514.66             | 10499.31             | 10509.97             | 10440.06             | 10372.35             |  |
| <i>Dow Low (a)</i>                   | 10400.08             | 10471.28             | 10426.69             | 10427.59             | 10307.96             | 10263.90             |  |
| <i>Dow at 10:00 a.m.</i>             | 10457.22             | 10495.46             | 10458.35             | 10497.20             | 10355.65             | 10341.82             |  |
| <i>Dow 1 Hour Before Close</i>       | 10463.34             | 10497.50             | 10461.83             | 10449.13             | 10343.55             | 10309.92             |  |
| <i>Dow Close</i>                     | <b>10471.50</b>      | <b>10501.05</b>      | <b>10452.00</b>      | <b>10441.12</b>      | <b>10308.26</b>      | <b>10328.89</b>      |  |
| <i>Variation</i>                     | 83.97                | 43.38                | 72.62                | 82.38                | 132.10               | 108.45               |  |
| <i>Variation vs. Prior Day Close</i> | 0.81%                | 0.41%                | 0.69%                | 0.79%                | 1.27%                | 1.05%                |  |
| <i>Close Off Low</i>                 | 71.42                | 29.77                | 25.31                | 13.53                | 0.30                 | 64.99                |  |
| <i>Close Off High</i>                | 12.55                | 13.61                | 47.31                | 68.85                | 131.80               | 43.46                |  |
| <i>Dow first ½ hr</i>                | +51.39               | +23.96               | -42.70               | +45.20               | -85.47               | +33.56               |  |
| <i>Dow Close v. 10:00 am Price</i>   | +14.28               | +5.59                | -6.35                | -56.08               | -47.39               | -12.93               |  |
| <i>Dow Last Hour</i>                 | +8.16                | +3.55                | -9.83                | -8.01                | -35.29               | +18.97               |  |
| <i>NYSE Advances</i>                 | 2027                 | 2256                 | 1208                 | 1980                 | 859                  | 1810                 |  |
| <i>NYSE Declines</i>                 | 1037                 | 790                  | 1847                 | 1076                 | 2209                 | 1240                 |  |
| <i>Unchanged</i>                     | 94                   | 137                  | 123                  | 116                  | 116                  | 122                  |  |
| <i>New Highs</i>                     | 220                  | 298                  | 220                  | 285                  | 129                  | 197                  |  |
| <i>New Lows</i>                      | 6                    | 3                    | 3                    | 3                    | 5                    | 6                    |  |
| <i>NYSE Up Volume</i>                | 678 mm               | 741 mm               | 390 mm               | 614 mm               | 190 mm               | 1.836 b              |  |
| <i>NYSE Down Volume</i>              | 319 mm               | 308 mm               | 772 mm               | 519 mm               | 1.502 b              | 801 mm               |  |
| <i>NASDAQ Advances</i>               | 1559                 | 1815                 | 1021                 | 1565                 | 716                  | 1610                 |  |
| <i>NASDAQ Declines</i>               | 1063                 | 851                  | 1663                 | 1098                 | 1943                 | 1071                 |  |
| <i>Unchanged</i>                     | 214                  | 197                  | 166                  | 189                  | 168                  | 176                  |  |
| <i>New Highs</i>                     | 56                   | 111                  | 130                  | 143                  | 59                   | 103                  |  |
| <i>New Lows</i>                      | 15                   | 10                   | 19                   | 19                   | 27                   | 35                   |  |
| <i>NASDAQ Up Volume</i>              | 888 mm               | 1.450 b              | 699 mm               | 1.273 b              | 407 mm               | 2.173 b              |  |
| <i>NASDAQ Down Volume</i>            | 835 mm               | 362 mm               | 1.216 b              | 732 mm               | 1.456 b              | 639 mm               |  |

**Yields Of Selected United States Treasury Obligations (Bloomberg Key Rates)**

|   | Dec 18 <sup>th</sup> , 2009 | Dec 11 <sup>th</sup> , 2009 | Dec 4 <sup>th</sup> , 2009 | Nov 27 <sup>th</sup> , 2009 | Dec 31 <sup>st</sup> , '08 | Dec 28 <sup>th</sup> , '07 |
|---|-----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|----------------------------|
| <i>3 month T-bill</i>                   | 0.04%                       | 0.02%                       | 0.04%                      | 0.02%                       | 0.08%                      | 3.14%                      |
| <i>6 month T-bill</i>                   | 0.16%                       | 0.15%                       | 0.17%                      | 0.13%                       | 0.26%                      | 3.42%                      |
| <i>12 month T-bill</i>                  | 0.34%                       | 0.31%                       | 0.33%                      | 0.23%                       | 0.34%                      |                            |
| <i>2 year T-note</i>                    | 0.79%                       | 0.80%                       | 0.83%                      | 0.68%                       | 0.76%                      | 3.11%                      |
| <i>3-year Treasury Note</i>             | 1.31%                       | 1.31%                       | 1.31%                      | 1.13%                       | 0.97%                      |                            |
| <i>5 year Treasury Note</i>             | 2.27%                       | 2.25%                       | 2.24%                      | 2.04%                       | 1.55%                      | 3.50%                      |
| <i>7-year Treasury Note</i>             | 3.03%                       | 3.03%                       | 2.97%                      | 2.70%                       |                            |                            |
| <i>10 year Treasury Note</i>            | 3.54%                       | 3.55%                       | 3.47%                      | 3.21%                       | 2.21%                      | 4.08%                      |
| <i>30 year Treasury Bond</i>            | 4.46%                       | 4.50%                       | 4.39%                      | 4.20%                       | 2.68%                      | 4.50%                      |
| <i>Current Prime Rate</i>               | 3.25%                       | 3.25%                       | 3.25%                      | 3.25%                       | 3.25%                      | 7.25%                      |
| <i>Current 1-mo LIBOR</i>               | 0.23%                       | 0.23%                       | 0.23%                      | 0.24%                       | 0.44%                      | 4.63%                      |
| <i>Current 3-mo LIBOR</i>               | 0.25%                       | 0.25%                       | 0.26%                      | 0.26%                       | 1.42%                      | 4.73%                      |
| <i>TED-Spread</i>                       | 21 bps                      | 23 bps                      | 22 bps                     | 24 bps                      | 134 bps                    |                            |
| <i>Spread b/t 10 &amp; 2 Yr. T-Note</i> | 275 bps                     | 275 bps                     | 264 bps                    | 253 bps                     | 145 bps                    | 97 bps                     |
| <i>1 mo. LIBOR v. Fed Funds</i>         | 8 bps                       | 9 bps                       | 10 bps                     | 11 bps                      | 19 bps                     | 38 bps                     |

| <b>Investor Sentiment (AAII Index, Barron's)</b> |                  |                      |                        |
|--|------------------|----------------------|------------------------|
|  | <b>Last Week</b> | <b>Two Weeks Ago</b> | <b>Three Weeks Ago</b> |
| <b>Bulls</b>                                     | 42.1%            | 42.7%                | 41.6%                  |
| <b>Bears</b>                                     | 28.4%            | 35.4%                | 33.7%                  |
| <b>Neutral</b>                                   | 29.5%            | 22.0%                | 24.8%                  |

|                          | <b>Current</b> | <b>One Month Prior</b> | <b>Three Months Prior</b> | <b>Six Months Prior</b> | <b>One Year Prior</b> | <b>Year End 2008</b> | <b>Year End 2007</b> |
|--------------------------|----------------|------------------------|---------------------------|-------------------------|-----------------------|----------------------|----------------------|
| <b>1-Year Adjustable</b> | 3.91%          | 3.93%                  | 3.94%                     | 4.08%                   | 5.67%                 | 5.65%                | 5.11%                |
| <b>15-Year Mortgage</b>  | 4.50%          | 4.56%                  | 4.65%                     | 4.91%                   | 5.23%                 | 5.12%                | 5.38%                |
| <b>30-Year Mortgage</b>  | 5.06%          | 5.03%                  | 5.16%                     | 5.43%                   | 5.27%                 | 5.30%                | 5.57%                |

| <b>Pertinent Weekly Financial Data</b>       |                            |                            |                           |                            |                                       |
|--|----------------------------|----------------------------|---------------------------|----------------------------|---------------------------------------|
|  | <b>Dec 18<sup>th</sup></b> | <b>Dec 11<sup>th</sup></b> | <b>Dec 4<sup>th</sup></b> | <b>Nov 27<sup>th</sup></b> | <b>December 31<sup>st</sup>, 2008</b> |
| <b>NYSE Total Issues</b>                     | 3236                       | 3222                       | 3218                      | 3220                       |                                       |
| <b>NYSE Advancing Stocks</b>                 | 1732                       | 1787                       | 24529                     | 1454                       |                                       |
| <b>NYSE Declining Stocks</b>                 | 1443                       | 1381                       | 751                       | 1699                       |                                       |
| <b>NYSE Unchanged Stocks</b>                 | 62                         | 54                         | 38                        | 67                         |                                       |
| <b>NYSE New Highs</b>                        | 562                        | 462                        | 506                       | 319                        |                                       |
| <b>NYSE New Lows</b>                         | 13                         | 14                         | 22                        | 15                         |                                       |
| <b>NYSE Total Weekly Volume</b>              | 7,819,451                  | 5,406,337                  | 6,219,499                 | 3,382,076                  |                                       |
| <b>NASDAQ Total Issues</b>                   | 2944                       | 2948                       | 2958                      | 2946                       |                                       |
| <b>NASDAQ Advancing Stocks</b>               | 1461                       | 1241                       | 1982                      | 1071                       |                                       |
| <b>NASDAQ Declining Stocks</b>               | 1412                       | 1644                       | 915                       | 1785                       |                                       |
| <b>NASDAQ Unchanged Stocks</b>               | 71                         | 63                         | 61                        | 90                         |                                       |
| <b>NASDAQ New Highs</b>                      | 299                        | 213                        | 262                       | 195                        |                                       |
| <b>NASDAQ New Lows</b>                       | 80                         | 52                         | 97                        | 58                         |                                       |
| <b>NASDAQ Total Weekly Volume</b>            | 11,097,638                 | 9,571,349                  | 10,681,354                | 6,132,510                  |                                       |
| <b>Unleaded Gasoline Prices Per Gallon</b>   | \$2.599                    | \$2.634                    | \$2.629                   | \$2.639                    | \$1.613                               |
| <b>West Texas Intermediate Crude Futures</b> | \$73.36                    | \$69.87                    | \$75.47                   | \$76.05                    | \$44.60                               |
| <b>Natural Gas Futures Per mm BTU</b>        | \$5.782                    | \$5.163                    | \$4.586                   | \$5.192                    | \$5.622                               |
| <b>Copper Futures Per Pound</b>              | \$3.14                     | \$3.13                     | \$3.24                    | \$3.13                     | \$1.41                                |
| <b>Soybean Futures Per Bushel</b>            | \$10.20                    | \$10.35                    | \$10.43                   | \$10.53                    | \$9.80                                |
| <b>Corn Per Bushel</b>                       | \$3.98                     | \$4.04                     | \$3.89                    | \$4.13                     | \$4.07                                |
| <b>Price of Gold Per Ounce</b>               | \$1111.50                  | \$1119.90                  | \$1169.50                 | \$1175.50                  | \$884.30                              |
| <b>Price of Silver Per Ounce</b>             | \$17.32                    | \$17.09                    | \$18.52                   | \$18.34                    | \$11.29                               |

\*Every \$0.01 move downward in the price of a gallon of gas saves consumers \$1.4 billion. At the close of 2007, the average price of a gallon of was \$3.05.

| <b>Value of U.S. Dollar versus the World's Other Major Currencies (Bloomberg.com). Dollars to buy one...</b> |                                  |                                  |                                 |                                  |                                  |                                  |                                  |
|--|----------------------------------|----------------------------------|---------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
|  | <b>Dec 18<sup>th</sup>, 2009</b> | <b>Dec 11<sup>th</sup>, 2009</b> | <b>Dec 4<sup>th</sup>, 2009</b> | <b>Nov 27<sup>th</sup>, 2009</b> | <b>Nov 20<sup>th</sup>, 2009</b> | <b>Dec 31<sup>st</sup>, 2008</b> | <b>Dec 28<sup>th</sup>, 2007</b> |
| <b>US \$ Index (DX-Y.NYB)</b>  | 77.765                           | 76.438                           | 75.911                          | 74.860                           | 75.579                           |                                  |                                  |
| <b>Euro</b>  | 1.4338                           | 1.4615                           | 1.4858                          | 1.4988                           | 1.4862                           | 1.3978                           | 1.4724                           |
| <b>British Pound</b>   | 1.6161                           | 1.6262                           | 1.6474                          | 1.6501                           | 1.6504                           | 1.4648                           | 1.9966                           |
| <b>Japanese Yen</b>  | 0.0111                           | 0.0112                           | 0.0110                          | 0.0116                           | 0.0113                           | 0.0110                           | 0.0089                           |
| <b>Canadian Dollar</b>   | 0.9377                           | 0.9433                           | 0.9452                          | 0.9418                           | 0.9341                           | 0.8170                           | 1.0186                           |
| <b>Swiss Franc</b>   | 0.9591                           | 0.9668                           | 0.9836                          | 0.9940                           | 0.9824                           | 0.9350                           | 0.8880                           |

| <b>First Call/Thomson Financial Projected 2009 Earnings &amp; Price to Earnings Ratios For Dow Jones Industrial Average. (Barron's MW 45)</b> |                            |                            |                           |                            |                            |                            |                           |
|---|----------------------------|----------------------------|---------------------------|----------------------------|----------------------------|----------------------------|---------------------------|
|   | <b>Dec 18<sup>th</sup></b> | <b>Dec 11<sup>th</sup></b> | <b>Dec 4<sup>th</sup></b> | <b>Nov 27<sup>th</sup></b> | <b>Nov 20<sup>th</sup></b> | <b>Nov 13<sup>th</sup></b> | <b>Nov 6<sup>th</sup></b> |
| <b>Projected Earnings</b>   | \$640.74                   | \$641.27                   | \$643.16                  | \$645.05                   | \$643.99                   | \$643.69                   | \$640.89                  |
| <b>P/E Ratio</b>  | 16.1                       | 16.2                       | 16.1                      | 16.2                       | 16.0                       | 15.8                       | 15.6                      |

**SECTOR WEIGHTINGS – Sector Weightings of the iShares S&P 1500 Index Fund**

| <i>Industry</i>               | <i>Sept 30<sup>th</sup>, 2009</i> |       | <i>June 30<sup>th</sup>, 2009</i> |        | <i>June 30<sup>th</sup>, 2009</i> |        | <i>Mar 31<sup>st</sup>, 2009</i> |        | <i>Dec 31<sup>st</sup>, 2008</i> |  | <i>Dec 31<sup>st</sup>, 2007</i> |  | <i>Dec 31<sup>st</sup>, 2006</i> |  |
|-------------------------------|-----------------------------------|-------|-----------------------------------|--------|-----------------------------------|--------|----------------------------------|--------|----------------------------------|--|----------------------------------|--|----------------------------------|--|
| <i>Financials</i>             | 15.37%                            | +1.35 | 14.02%                            | 14.02% | 11.68%                            | 13.86% | 21.04%                           | 20.90% |                                  |  |                                  |  |                                  |  |
| <i>Information Technology</i> | 18.25%                            | +0.23 | 18.02%                            | 18.02% | 17.77%                            | 15.17% | 14.69%                           | 15.08% |                                  |  |                                  |  |                                  |  |
| <i>Industrials</i>            | 10.69%                            | +0.15 | 10.54%                            | 10.54% | 10.30%                            | 11.50% | 11.58%                           | 12.27% |                                  |  |                                  |  |                                  |  |
| <i>Health Care</i>            | 13.17%                            | -0.67 | 13.84%                            | 13.84% | 14.66%                            | 14.54% | 11.86%                           | 11.99% |                                  |  |                                  |  |                                  |  |
| <i>Consumer Discretionary</i> | 9.82%                             | +0.16 | 9.66%                             | 9.66%  | 9.49%                             | 8.94%  | 11.08%                           | 10.72% |                                  |  |                                  |  |                                  |  |
| <i>Energy</i>                 | 10.99%                            | -0.65 | 11.64%                            | 11.64% | 12.23%                            | 12.47% | 9.81%                            | 10.14% |                                  |  |                                  |  |                                  |  |
| <i>Consumer Staples</i>       | 10.92%                            | -0.12 | 11.04%                            | 11.04% | 11.81%                            | 11.95% | 8.82%                            | 8.76%  |                                  |  |                                  |  |                                  |  |
| <i>Utilities</i>              | 3.94%                             | -0.37 | 4.31%                             | 4.31%  | 4.49%                             | 4.56%  | 4.11%                            | 3.79%  |                                  |  |                                  |  |                                  |  |
| <i>Basic Materials</i>        | 3.75%                             | +0.18 | 3.57%                             | 3.57%  | 3.66%                             | 3.24%  | 3.42%                            | 3.28%  |                                  |  |                                  |  |                                  |  |
| <i>Telecom Services</i>       | 2.89%                             | -0.27 | 3.16%                             | 3.16%  | 3.65%                             | 3.44%  | 3.36%                            | 2.94%  |                                  |  |                                  |  |                                  |  |

**Sector Performance Week Ending Dec 18<sup>th</sup> v. Week Ending Dec 11<sup>th</sup> v. Dec. 4<sup>th</sup>**

|                          | <b>Trailing Week</b> | <b>Year-to-Date</b> | <b>Trailing Twelve Months</b> |
|--------------------------|----------------------|---------------------|-------------------------------|
| <b>Pos/Neg Last Week</b> | 42 / 58              | 91 / 7              | 91 / 7                        |
| <b>Pos/Neg Last Week</b> | 46 / 52              | 91 / 7              | 93 / 5                        |
| <b>Pos/Neg Last Week</b> | 79 / 19              | 91 / 7              | 95 / 3                        |

**Dow Jones U.S. Total Market Industry Groups for the Week Ended December 18<sup>th</sup> (Barron's MW 45)**

| <b>Past Week Top Performing Industry Groups</b> |                                    |        |      | <b>Past Week Worst Performing Industry Groups</b> |                              |        |     |
|---|------------------------------------|--------|------|---|------------------------------|--------|-----|
| 1   | Oil & Gas Exploration & Production | +8.03% | O&G  | 98  | Gold Mining                  | -5.36% | BM  |
| 2   | Real Estate Holdings & Developers  | +7.01% | FINL | 97  | Integrated Oil & Gas         | -4.03% | O&G |
| 3   | Coal                               | +6.50% | BM   | 96  | Brewers                      | -3.62% | CG  |
| 4   | Heavy Construction                 | +5.77% | IND  | 95  | Food Retailers & Wholesalers | -3.45% | CS  |
| 5   | Automobiles                        | +5.05% | CG   | 94  | Soft Drinks                  | -2.97% | CG  |
| 6   | Hotels                             | +4.87% | CS   | 93  | Platinum & Precious Metals   | -2.92% | BM  |
| 7   | Marine Transportation              | +4.62% | IND  | 92  | Personal Products            | -2.48% | CG  |
| 8   | Home Construction                  | +4.45% | CG   | 91  | Fixed Line Telecom           | -2.32% | TEL |
| 9   | Oil & Gas Pipelines                | +3.52% | O&G  | 90  | Tires                        | -2.31% | CG  |
| 10  | Oil Equipment & Services           | +3.32% | O&G  | 89  | Drug Retailers               | -2.29% | CS  |

**Dow Jones U.S. Total Market Industry Groups for the Week Ended December 11<sup>th</sup> (Barron's MW 49)**

| <b>Past Week Top Performing Industry Groups</b> |                           |         |      | <b>Past Week Worst Performing Industry Groups</b> |                              |        |      |
|---|---------------------------|---------|------|---|------------------------------|--------|------|
| 1   | Nonferrous Metals         | +11.87% | BM   | 98  | Platinum & Precious Metals   | -4.69% | BM   |
| 2   | Airlines                  | +8.17%  | CS   | 97  | Gambling                     | -4.21% | CS   |
| 3   | Publishing                | +6.92%  | CS   | 96  | Marine Transportation        | -3.26% | IND  |
| 4   | Mobile Telecom            | +6.32%  | TEL  | 95  | Nonferrous Metals            | -3.12% | BM   |
| 5   | Health Care Providers     | +4.38%  | HC   | 94  | Banks                        | -2.93% | FINL |
| 6   | Broadcast & Entertainment | +3.94%  | CS   | 93  | Food Retailers & Wholesalers | -2.71% | CS   |
| 7   | Electricity               | +3.74%  | UTIL | 92  | Transportation Services      | -2.69% | IND  |
| 8   | Consumer Finance          | +3.24%  | FINL | 91  | Home Construction            | -2.60% | CG   |
| 9   | MultiUtilities            | +3.17%  | UTIL | 90  | Full Line Insurance          | -2.48% | FINL |
| 10  | Specialty Finance         | +3.03%  | FINL | 89  | Gold Mining                  | -2.19% | BM   |

**Dow Jones U.S. Total Market Industry Groups for the Week Ended December 4<sup>th</sup> (Barron's MW 45)**

| <b>Past Week Top Performing Industry Groups</b> |                                   |         |      | <b>Past Week Worst Performing Industry Groups</b> |                          |        |     |
|---|-----------------------------------|---------|------|---|--------------------------|--------|-----|
| 1   | Airlines                          | +19.99% | CS   | 98  | Nonferrous Metals        | -4.22% | BM  |
| 2   | Business Training                 | +13.39% | IND  | 97  | Coal                     | -3.27% | BM  |
| 3   | Real Estate Holdings & Developers | +10.79% | FINL | 96  | Gold Mining              | -2.70% | BM  |
| 4   | Real Estate Investment Trusts     | +8.55%  | FINL | 95  | Home Construction        | -2.42% | CG  |
| 5   | Platinum & Precious Metals        | +8.07%  | BM   | 94  | Toys                     | -2.26% | CG  |
| 6   | Semiconductor                     | +7.94%  | TECH | 93  | Equipment & Services     | -1.97% | O&G |
| 7   | Specialty Finance                 | +7.38%  | FINL | 92  | Drug Retailers           | -1.83% | CS  |
| 8   | Hotels                            | +7.29%  | CS   | 91  | Exploration & Production | -1.81% | O&G |
| 9   | Travel & Tourism                  | +6.78%  | CS   | 90  | Restaurants & Bars       | -1.78% | CS  |
| 10  | Tires                             | +5.90%  | CG   | 89  | Heavy Construction       | -1.49% | IND |

**Dow Jones U.S. Total Market Industry Groups or the Week Ended December 18<sup>th</sup> (Barron's MW 45)**

|    |    | Past Week         |        | Year-to-Date |                   | Trailing 12 Months |                   |         |
|----|----|-------------------|--------|--------------|-------------------|--------------------|-------------------|---------|
| 1  | +6 | Technology        | +1.27% | +1           | Technology        | +58.21%            | Technology        | +55.73% |
| 2  | +7 | Oil & Gas         | +0.92% | -1           | Basic Materials   | +57.16%            | Basic Materials   | +48.85% |
| 3  | +1 | Health Care       | -0.14% |              | Consumer Services | +30.49%            | Consumer Services | +30.50% |
| 4  | +6 | Financials        | -0.17% |              | Industrials       | +22.52%            | Industrials       | +23.07% |
| 5  | -4 | Utilities         | -0.20% |              | Consumer Goods    | +19.02%            | Health Care       | +22.31% |
| 6  | -1 | Basic Materials   | -0.22% |              | Health Care       | +18.50%            | Consumer Goods    | +20.22% |
| 7  | -1 | Industrials       | -0.28% | +1           | Oil & Gas         | +13.72%            | Financials        | +12.77% |
| 8  | -5 | Consumer Services | -0.72% | -1           | Financials        | +12.96%            | Utilities         | +11.71% |
| 9  | -1 | Consumer Goods    | -0.97% |              | Utilities         | +8.41%             | Oil & Gas         | +11.39% |
| 10 | -8 | Telecom           | -2.22% |              | Telecom           | +1.85%             | Telecom           | +2.96%  |

**Dow Jones U.S. Total Market Industry Groups or the Week Ended December 11<sup>th</sup> (Barron's MW 49)**

|    |    | Past Week         |        | Year-to-Date |                   | Trailing 12 Months |                   |         |
|----|----|-------------------|--------|--------------|-------------------|--------------------|-------------------|---------|
| 1  |    | Utilities         | +3.43% |              | Basic Materials   | +57.51%            | Technology        | +54.58% |
| 2  |    | Telecom           | +2.23% |              | Technology        | +56.23%            | Basic Materials   | +54.16% |
| 3  | +4 | Consumer Services | +1.75% |              | Consumer Services | +31.44%            | Consumer Services | +33.53% |
| 4  | +4 | Health Care       | +0.72% |              | Industrials       | +22.86%            | Health Care       | +26.56% |
| 5  | +4 | Basic Materials   | +0.10% |              | Consumer Goods    | +20.18%            | Industrials       | +24.72% |
| 6  | -1 | Industrials       | -0.20% |              | Health Care       | +18.66%            | Consumer Goods    | +21.99% |
| 7  | -3 | Technology        | -0.24% |              | Financials        | +13.24%            | Financials        | +12.66% |
| 8  | -2 | Consumer Goods    | -0.60% |              | Oil & Gas         | +12.68%            | Oil & Gas         | +10.75% |
| 9  | +1 | Oil & Gas         | -0.87% |              | Utilities         | +8.62%             | Utilities         | +10.31% |
| 10 | -7 | Financials        | -1.24% |              | Telecom           | +4.16%             | Telecom           | +5.77%  |

**Dow Jones U.S. Total Market Industry Groups or the Week Ended December 4<sup>th</sup> (Barron's MW 45)**

|    |    | Past Week         |        | Year-to-Date |                   | Trailing 12 Months |                   |         |
|----|----|-------------------|--------|--------------|-------------------|--------------------|-------------------|---------|
| 1  | +2 | Utilities         | +3.57% |              | Basic Materials   | +57.35%            | Basic Materials   | +75.32% |
| 2  | -1 | Telecom           | +2.70% |              | Technology        | +56.60%            | Technology        | +63.11% |
| 3  | +7 | Financials        | +2.67% |              | Consumer Services | +29.18%            | Consumer Services | +38.65% |
| 4  | +4 | Technology        | +2.56% |              | Industrials       | +23.11%            | Industrials       | +28.20% |
| 5  | +2 | Industrials       | +2.51% |              | Consumer Goods    | +20.92%            | Health Care       | +26.55% |
| 6  | -1 | Consumer Goods    | +1.29% |              | Health Care       | +17.81%            | Consumer Goods    | +22.59% |
| 7  | -1 | Consumer Services | +1.18% | +1           | Financials        | +14.66%            | Financials        | +22.11% |
| 8  | -6 | Health Care       | +0.93% | -1           | Oil & Gas         | +13.67%            | Oil & Gas         | +16.72% |
| 9  |    | Basic Materials   | -0.27% |              | Utilities         | +5.02%             | Utilities         | +5.60%  |
| 10 | -6 | Oil & Gas         | -1.32% |              | Telecom           | +1.89%             | Telecom           | +1.54%  |

## **Economic Releases**

Majority of Economic Data found at [www.haver.com](http://www.haver.com)

### **Friday, December 18<sup>th</sup>**

The Conference Board reported that its **INDEX OF LEADING ECONOMIC INDICATORS** rose by a strong 0.9% during November, this follows gains of 0.3%, 1.2%, 0.4%, 1.0% in October, September, August and June, respectively. The index has risen during each of the past eight months and is now higher than its last peak during June 2007. Six of the ten components rose, including the interest rate spread, average weekly initial claims for unemployment benefits, average weekly manufacturing hours, building permits, stock prices and real money supply. Subtracting from the report was the supplier deliveries, the index of consumer expectations, and manufacturers' new orders for nondefense capital goods. The report included the observation that "all in all, the behavior of the composite indexes suggests that the recession is bottoming out and that economic conditions will continue to improve in the near term...noting strengths had remained 'widespread' in recent months." Moreover, according to Ken Goldstein, an economist for the Conference Board, "the indicators point to a bright new year."

### **Thursday, December 17<sup>th</sup>**

**INITIAL CLAIMS FOR UNEMPLOYMENT BENEFITS** for the week ended December 12<sup>th</sup> unexpectedly rose 7,000 to 480,000 from 473,000 one week prior, *numbers consistent with an economy in recession as well as an indication that despite the recent pick-up in economic activity, the labor market has yet to benefit in any substantial manner.* The four-week rolling average decreased by 5,250 to 467,500 from a revised level of 472,750 one week prior. Continuing claims for the week ended December 5<sup>th</sup> increased 5,000 to 5.186 million from 5.181 million (lowest since late February 2009) one week prior. The continuing claims four-week average decreased 106,750 to 5.318 from 5.426 million.

### **Wednesday, December 16<sup>th</sup>**

The Commerce Department reported that **HOUSING STARTS** rebounded by 47,000 during November to 574,000 from 427,000 this after having had fallen by 63,000 during October. Over the past twelve months housing starts have fallen 12.4%. Of note is the fact that there must be approximately one million housing starts per year just to replace those lost to natural causes, man-induced causes or by the growing U.S. population. **Single-family** housing starts rose 10,000 to 482,000 in November from 472,000 in October and by 5.5% y/y. From the peak during January 2006, single family housing starts have fallen by more than 75%. **Multi-family** housing starts rose to 92,000 in November from 55,000 during October while over the past year they have fallen 53.5%. Finally, **SINGLE FAMILY BUILDING PERMITS**, a preview of future housing starts, rose to 584,000 in November from 551,000 one month prior, but have fallen 7.3% y/y.

Prices at the retail level as represented by the **CONSUMER PRICE INDEX** rose 0.4% during November, this after rising 0.3% during October. Over the past year the CPI has risen 1.8%. As with the PPI, energy costs led the Index higher, rising 4.1% during November ((+18.7% y/y), which includes gasoline 6.4% (+23.6% y/y), fuel oil 7.3% (-7.7%) and natural gas 1.4% (-5.0% y/y). The y/y decrease four months ago had been 1.9%, the steepest drop since 1950. The **core CPI**, which is represented by the CPI excluding food and energy, was unchanged during November versus an increase of 0.2% recorded during October. Over the last twelve months, the core-PPI has risen 1.7%. Finally, the **chained CPI**, which measures inflation, but adjusts for shift in the mix of consumer purchases, was flat during November, but has risen 1.6% y/y while the **core chained CPI** fell 0.2% in November, but has risen 1.3% over the trailing twelve months.

### **Tuesday, December 15<sup>th</sup>**

Prices at the wholesale level as measured by the **PRODUCER PRICE INDEX** spiked 1.8% during November (+2.7% y/y) as energy costs rose 6.9% (10.6% y/y), including gasoline prices 8.2% (+35.9% y/y), fuel oil 10.8% (-7.1% y/y) and natural gas 3.9% (-15.6% y/y). Food prices rose a more moderate 0.5% (-1.6% y/y). Excluding food and energy, the so-called **core PPI** rose 0.5% during November, slipped 0.6% during October, but has risen 1.2% y/y. Wholesale Prices at the **Intermediate Level** rose 1.4% (-1.5% y/y) during November while prices for **Crude Goods** (Raw Materials) surged 5.7% during November and by 4.8% y/y.

**INDUSTRIAL PRODUCTION**, a measure of strength of the manufacturing, factory and utility sectors, resumed its upward trend by rising by 0.8% during November, this after remaining unchanged during October. Industrial Production has risen four of the past five months, October the only exception when, as noted above, it was flat. Prior to these increases Industrial Production had fallen every month since December 2006. Year-Over-Year Industrial Production has fallen 5.2%, rebounding off its record 13.6% decline recorded during May, the steepest since the latter part of 1946 when the United States Factory Sector was winding down its production capacity increased for World War II. Overall **CAPACITY UTILIZATION** rose to 71.3% from 70.7% while utilization in the factory sector improved to 68.4% during November from 67.9%, but has fallen from a near 80% peak back in 2007.

### Friday, December 11<sup>th</sup>

**RETAIL SALES** rose 1.3% during November, helped higher by the 1.6% rise in sales of automobiles which had risen 7.1% during October. Over the past year Retail Sales have risen 1.9%. Of note was the 1.2% (+8.1% y/y) increase in **catalogue and internet purchases**. **EXCLUDING AUTOMOBILES AND GASOLINE** and perhaps illustrative of the tendency of the consumer to truly spend, Retail Sales rose 0.6% during November (0.4% y/y) while **excluding autos**, they rose 1.2% (1.3% y/y).

**BUSINESSES INVENTORIES** increased 0.2% during October, ending which had been a string of thirteen consecutive contractions. According to the Associated Press, “the 13 consecutive declines in overall inventories was the longest stretch of weakness since a record 15 straight drops during a period that covered the last recession in 2001. But the total decline of 13.9% in the current slump is larger than the 7.6% drop that occurred during the last slowdown.” This pace of inventory reduction has not been witnessed since 1980 and perhaps signaling that when the economy just stabilizes businesses will have to ramp up production. In fact, **BUSINESS SALES** rose 1.1%, the fourth increase over the past five months. The combination of declining inventories and less declining sales pushed the **INVENTORY-TO-SALES RATIO** to 1.30 months from 1.32 months.

**U.S. Import Prices** rose 1.7% during November, the seventh increase over the past eight months as petroleum costs rose 6.2% to their highest levels in more than one year. Import Prices have risen 3.7% y/y as petroleum prices have risen 35.5%. During October, Import Prices rose 0.8%. **Export prices** rose 0.8% in November and by 0.6% y/y. **Agricultural export prices** rose 3.7% during November and by 0.6% y/y while **Non-Agricultural Export Prices** rose 0.7% during November and risen fractionally y/y.

The University of Michigan reported that **PRELIMINARY DECEMBER READING OF CONSUMER SENTIMENT** rose to 73.4% from a final November level of 67.4% and from a mid-November level of 66.0%. The **expectations component** jumped to 69.7% from a final November reading of 66.5% and from 63.7% mid-November. Finally, the **current conditions component** surged to a reading of 79.1% from a final November 68.8% and from a mid-November reading of 69.6%.

### Thursday, December 10<sup>th</sup>

The **U.S. Trade Deficit** during October shrank 7.84% to \$32.9 billion from \$35.7 billion recorded one month prior as exports rose while petroleum imports shrank a bit. The consensus estimate projected the deficit to rise to \$37.0 billion. Oil dipped to \$67.39/bbl during October from \$68.17/bbl during September, but has risen from a cycle low of \$39.22/bbl recorded during this past February. The value of petroleum imports fell 9.7% (-39.7% y/y) during October while the total volume shrank 12.5% (-19.2% y/y). Non-Petroleum Import costs rose by 2.9% during October, but they are 15.2% below one year ago. **Imports** rose 0.4% during October to \$169.8 billion from \$168.4 billion, while **exports** rose 2.6% to \$136.8 billion from \$132.0 billion.

### Tuesday, December 8<sup>th</sup>

The Federal Reserve reported that **CONSUMER CREDIT** fell \$3.5 billion during October, the ninth consecutive monthly decline and the thirteenth over the past fifteen. The contraction in consumer credit seems to be easing a bit as consumer credit outstanding has declined from a high of 24.7% of disposable income in 2005 to 22.4% today. September's numbers were revised to show a drop of \$8.7 billion from the \$14.8 billion, initially reported. Prior to this, consumer credit had never contracted eight consecutive months since the Federal Reserve started following it in 1943. Over the past year Consumer Credit has fallen by 3.6% as high unemployment and a bottoming housing market has put them on the shelf. According to Haver Analytics, “annualized, credit growth averaged 8% during the fifteen years ended 2007. Over an even longer time period that increase does not loom particularly large. However, against an average 5% growth in disposable income during those years, it precipitated a rise in the ratio to disposable income to 24% from a longer term norm of 17%.” **Non-revolving credit** (automobiles, consumer durables and student loans), which accounts for nearly two-thirds of total consumer credit, rose by \$3.5 billion during October, but has fallen 0.6% y/y while **revolving credit** (credit cards) outstanding fell \$6.9 billion during October, a record thirteen consecutive declines, and by 8.5% y/y, this according to the Federal Reserve.

### Friday, December 4<sup>th</sup>

**NON-FARM PAYROLLS** fell by just 11,000 during November, far better than the 120,000 decline which represented the consensus estimate. Furthermore, October and September payrolls were revised to show losses of 111,000 and 139,000 smaller than the initially reported drops of 190,000 and 219,000 respectively. Over the past three months, employers shed an average of 87,000 workers versus 188,000 one month ago and compared to a record high of 701,000 over the latter part of 2008 and early 2009. At least for the time being, job cuts peaked during this past January at 741,000 the most since 1949. The **UNEMPLOYMENT RATE** fell to 10.0% during November from 10.2% during October as the labor force shrank by 98,000. According to Haver Analytics, “the number of individuals not in the labor force rose to 82,866,000 (3.3% y/y) with 6,011,000 (11.4% y/y) who want a job now.” The November drop brings the total number of jobs lost since this recession started in November 2007, twenty-three months ago, to 7.4 million or 5.3% of the workforce. Furthermore, if laid-off workers who have given up looking for new jobs or are working part-time out of necessity were included, the unemployment rate would have been 17.2% during November, down from 17.5% one month prior, which had market the highest rate since these types of records began being kept in 1994. The **labor force participation rate** declined to 65.0% in November from 65.1% during October, a twenty-three year low. **Average hourly earnings** rose by \$0.01 to \$18.74 from \$18.73 while over the past year, AHE have risen 2.2%. Providing some hope to the labor market, **hours worked** rose to 33.2 off a series low 33.0 hours during October. The combination pushed **average weekly earnings** up \$4.08 or 0.66% to \$622.17 from \$618.09. Average weekly earnings have risen by just 1.6% over the past year, in large part due to declines in the length of the average workweek. *As noted last month, at this particular time it is difficult to envision the labor market making consistent gains while the average workweek is near historic lows, capacity utilization remains low and the unemployment rate remains high.*

**FACTORY ORDERS** during the month of October rose by 0.6%, this after rising by 1.6% during September, but falling by 18.3% y/y while **FACTORY INVENTORIES** rose by -.4% during October, its first increase in fourteen months. This combination of rising orders and inventory decumulation should at some time result in a pick-up in manufacturing. Finally, this combination pushed the **INVENTORY-TO-SALES RATIO** down to 1.34 months from 1.35 months one month prior, historically a low level.

### Thursday, December 3<sup>rd</sup>

**THIRD QUARTER PRODUCTIVITY** was revised a bit lower to an annualized rate of 8.1% from a preliminarily reported increase of 9.6%. This comes after a 6.9% jump during Q2 and an increase of 4.3% y/y. This number marks the strongest quarterly rate of growth since the Q3-2003. **HOURLY COMPENSATION** rose at an annualized rate of 5.4% (orig. 3.8%) during Q3, its first such gain in a year. Over the past year, Hourly Compensation has risen by 2.5% from an initially reported increase of just 0.5%, which had marked the weakest y/y pace of growth since 1949. **UNIT LABOR COSTS** (defined as output per hour of work and can be determined by dividing hourly labor costs by output per hour) fell at a revised annualized rate of 2.5% (orig. 5.2%) during Q3 and by 1.4% y/y. The sharp increase in productivity was a result of sharper cost cutting by employers in the form of hours worked and the number of employees when compared to output.

The Institute for Supply Management’s **composite index of non-manufacturing (service) sector activity** fell for the second consecutive month, this time to 48.7% from 50.6% during October and from 50.9% during September. Of note, was the drop in the following components – **Business Activity** (49.6 v. 55.2), **New Orders** (55.1 v. 55.6), and **Backlog of Orders** (48.5 v. 53.5). Bucking the downward trend was the rise in the **Prices Paid Component** (57.8 v. 53.0) and well as the **Employment Component** (41.6 v. 41.1).

### Tuesday, December 1<sup>st</sup>

The Institute for Supply Management’s **composite index of manufacturing sector activity** slipped to 53.6% during November from a level of 55.7% recorded in October which had marked the highest level since April 2006. The ISM hit a low of 32.9% this past December. Generally speaking, “a reading above 50% indicates that the manufacturing economy is generally expanding; below 50% indicates that it is generally contracting.” Of note was the jump in the **New Orders** (60.3% v. 58.5%); and **Exports** (56.0% v. 55.5%). Sectors that subtracted from the performance of the ISM Index were **Production** (59.9% v. 63.3), **Supplier Deliveries** (55.7 v. 56.9), **Employment** (50.8% v. 53.1%). The **Prices Paid Component** fell to 55.0% v. 65.0%).

**U.S. CONSTRUCTION SPENDING** during October was unchanged, this after September’s report was revised downward to show a decline of 1.6% from an initially reported loss of 0.8%. Over the past year Construction Spending has fallen 14.4%. **Private Construction Spending** rose 0.3% in October, but has fallen 21.9% y/y while **Private Residential Construction Spending** rose 4.2% (-23.6% y/y) perhaps indicating a bottom has been reached. **Private Nonresidential Construction Spending** slipped 2.5% (-20.6% y/y). Finally, **Public Construction** fell 0.4% during October, but has risen 3.8% y/y.

### Wednesday, November 25<sup>th</sup>

**ORDERS FOR DURABLE GOODS** (those expected to last at least three years) fell 0.6% during October, partially canceling the upwardly revised 2.0% (orig. 1.0%) gains recorded during September. Over the past year, Orders for Durable Goods have fallen 11.9%. **Excluding transportation, orders for durable goods** fell by 1.3%, this after rising 1.8% during September. Over the past year, they have fallen 11.3% y/y. Finally, **inventories** fell for the tenth consecutive month, during October, by 0.1% while **shipments** rose 0.2%.

The Bureau of Economic Analysis reported that **PERSONAL INCOME** rose just 0.2% during October an identical percent to September which was revised upward from a loss of 0.1% during September, a further sign that the recovery is continuing, but at a modest pace. Over the past twelve months, personal incomes have fallen 1.0%, causing many to wonder where the recovery in consumer spending will come from. **DISPOSABLE PERSONAL INCOME** (personal income less taxes) rose 0.4% during October after rising 0.2% in September and by 2.4% y/y. **PERSONAL CONSUMPTION**, which represents approximately 70% of economic activity, rose 0.7% in October, rebounding a bit from September's 0.6% drop, the month in which the "cash for clunkers" program ended. Over the past year, Personal Consumption has risen 0.9%. **PERSONAL SAVINGS** (Disposable Personal Income Less Outlays) fell to \$490.3 billion in October when compared to \$510.4 billion recorded during September resulting in a rate of 4.4% as a percentage of disposable income, compared to 4.6% in September. The **PCE CHAIN PRICE INDEX**, one of the Fed's favorite measures of inflation rose 0.3% during October (+0.2% y/y) while the **core PCE Chain Price Index** rose 0.2% during October, and is 1.4% above year-ago levels.

The Commerce Department reported that **SALES OF NEW HOMES** rose 24,000 or 6.2% during October to an annualized rate of 430,000 units from a revised 406,000 (orig. 417,000) during September, perhaps, once again, a sign that we have at least reached the end of the downturn in the housing market and have at least stabilized, albeit at lower levels. Sales of New Homes have risen by 5.1% y/y to their highest levels since September 2008. Despite this, they have fallen by nearly 75% since the peak in July of 2005. The **length of time it would take to sell the current inventory of unsold homes** rose to 6.7 months from 7.5 months, down from 12.4 months recorded during January 2009. The **median price of a new home** rose 0.70% during October to \$212,200 from \$210,700 during September, but have nonetheless fallen 0.5% from over the past year. Of note, the **S&P CASE-SHILLER HOME PRICE INDEX**, an index of twenty metropolitan markets, rose by 0.3% during September to 146.00 from 144.30 one month prior (January 2000 = 100), the third consecutive monthly increase. However, despite this fact, the index remains 9.3% below year-ago levels and by 29.3% from the peak during 2007.

### Tuesday, November 24<sup>th</sup>

The Commerce Department revised **THIRD QUARTER GROSS DOMESTIC PRODUCT**, a tally of the output of all goods and services in the United States, down to an annualized 2.4% from an initially reported 3.5%, due mostly to downward revisions to domestic demand and a widening trade deficit. Despite the downward revision, Q3 is a substantial improvement over the 0.7% and 6.4% rates of decline recorded during Q2 and Q1, respectively. The increase marks the first after four consecutive quarterly declines, the longest such stretch since 1947. **Domestic Final Demand** rose at an annualized rate of 2.7% versus an initially reported increase of 3.0%. **Inventories** had a 0.9% positive impact on GDP, identical to what was initially reported while the negative impact from **foreign trade** was -0.8% versus an initially reported -0.5%, the first decline in a year, as imports rose at an annualized pace of 20.8% (-14.1% y/y) while exports rose by 17.0% (-10.8% y/y). The **PCE Chained GDP Price Index** rose 2.7% (-0.7% y/y).

The **CONFERENCE BOARD'S CONSUMER CONFIDENCE INDEX** jumped to 49.5 during November from 48.7 in October, ending which had been two consecutive months of declines. Somewhat ominously, the **present situation** index fell to 21.0 from 21.1, near a twenty-six year low while the **expectations index** bounced back to 68.5 from 67.0 during October. Those surveyed that said that **jobs are "hard to get"** increased to 49.8% from 49.4% while those claiming that **jobs are "plentiful"** fell to 3.2% from 3.5%. Those **expecting business conditions to improve** decreased to 20.0% from 20.8% in October. Of note, was the decline in respondents claiming that **business conditions are bad** to 45.7% from 46.7% as well as the move to 8.1% from 7.8% of the respondents that are claiming **business conditions are good**.

### Monday, November 23<sup>d</sup>

**SALES OF EXISTING HOMES** jumped 10.11% during October to an annualized rate of 6.100 million units from 5.540 million units during September, the third consecutive monthly increase. Sales of Existing Homes have now risen 23.5% over the past twelve months. The **inventory of unsold homes** fell to 7.0 months from 7.5 months during September while the **inventory of unsold single-family homes** fell to 6.8 months during October from 7.6 months during September, both of which mark lows not witnessed since early-2007. Finally, the **median existing-home sales price** slipped 1.65% to \$173,100 during October from \$176,000 when compared to September and have fallen 7.1% over the past year and by approximately 30% from their all-time highs. The recent decline in the median existing home sales price has helped pushed home affordability up 18.1% y/y.

**Friday, October 30<sup>th</sup>**

The **EMPLOYMENT COST INDEX**, according to the Department of Labor, a “measure of quarterly changes in compensation costs, which include wages, salaries, and employer costs for employee benefits for civilian workers (non-farm private and state and local government)” rose by 0.5% during the third quarter. Over the past year the ECI rose just 1.3%, the slowest pace of growth on record (the series dates back to 1980). The **wages & salaries component** (70% of ECI) rose by 0.5% (1.3% y/y) during the third quarter, this following the 0.2% gain during the second quarter. The **cost of benefits** rose by 0.3% over the past quarter, by 0.2% during the second quarter and by just 1.0% over the past twelve months.

## **Economic & Investment Definitions**

### **Strength of Dollar**

A Weak Dollar increases exports while a Strong Dollar decreases exports. The reasoning is that a Weak dollar makes goods and services cheaper abroad while a strong dollar makes exports more expensive abroad. A strong dollar also helps keep inflation at bay by making imports cheaper, thereby helping keep wage and other inflationary pressures below the boiling point. It also provides foreign Treasury buyers two ways to profit – through bond price and dollar appreciation.

A weak dollar can be inflationary since it makes imports more expensive. This, in turn, gives domestic companies room to increase prices. Conversely, a strengthening dollar makes imports more competitive on a price basis.

“Let’s imagine the dollar quickly dropped by a further 25% against each major world currency, roughly parallel to housing’s unprecedented 30% decline. That would mean it would take \$2 to buy a single euro. On the good side, U.S. manufacturers would find it easier to compete globally, and foreign tourism would boom in the U.S. On the bad side, inflation in the U.S. would zoom because of the rising cost of imported products. Americans would have even more trouble getting a loan as foreign buyers pull out of the debt market.

Abroad, the cheap dollar would make it harder for other nations to export to the U.S., hurting their growth. China could face social unrest. Trade wars could break out.” (Business Week, *What Happens If The Dollar Crashes*; October 26, 2009)

### **Trade Deficit**

An expanding trade deficit (imports exceeding exports) hurt the dollar because more dollars are held by foreigners. Some fear that foreigners will tire of holding declining dollars and sell them for other currencies putting added pressure on the greenback. In addition, foreign investors with U.S. assets are seeing those holdings decline as the dollar falls. As these investors sell these holdings and move to investments in other countries, it adds to selling pressure of the dollar.

### **Employment Cost Index**

Compiled by the Bureau of Labor Statistics, is considered the most accurate measure of wages, salaries and benefits, measuring compensation per hour, including wages, salaries and the cost of benefits - from health insurance to Social Security contributions. Wages and salaries account for approximately seventy percent of the employment cost index with benefits (health insurance and pension benefits) accounting for the rest.

### **Put/Call Ratio**

The put-to-call ratio measures the sentiment of options traders. When the number of puts compared to calls is high, that means that many traders think the market will go down. When call volume outnumbers puts, many think the market is going to rise. Many use this as a contrarian indicator meaning that if options traders are too bullish, the market may actually fall.

Put option buyers bet that stocks will fall while call buyers bet that stocks will rise. Conversely put option sellers bet that stocks will rise while call sellers bet that stocks will fall. Options buyers and sellers are subject to expiration dates. Buyers of call options bet that a stock will be worth more than the price set by the option (the strike price), plus the price they pay for the option itself. Buyers of put options bet that the stock’s price will drop below the price set by the option. When the number of puts compared to calls is high, that means that many traders think the market will go down. When call volume outnumbers puts, many think the market is going to rise. Many use this as a contrarian indicator meaning that if options traders are too bullish, the market may actually fall.

### **Volatility Indices (^vix and ^vxn)**

According to the Chicago Board of Options Exchange, the Volatility Index, “known by its ticker symbol “vix,” was introduced by CBOE in 1993, and measures the volatility of the U.S. equity market. It provides investors with up-to-the-minute market estimates of expected volatility by using real-time OEX index option bid/ask quotes.”

The CBOE NASDAQ Volatility Index, known by its ticker symbol “vxn,” is the “benchmark of “tech stock” volatility based on the implied volatility of the NASDAQ 100 Index options. Calculated using the same methodology as the CBOE Market Volatility Index, the VIX is constructed so that, at any given time, it represents the implied volatility of a hypothetical at-the-money NDX option with thirty calendar days to expiration.”

### **Arms Index (^sti.n)**

A contrarian index that indicates the bullishness or bearishness of investors. A reading below one indicates more action in rising stocks and a figure above one indicates more action in declining stocks. As a contrarian indicator, a reading above one is bullish for investors while a reading below one indicates bearishness.

Advancing Stocks / Declining Stocks + Advancing Volume / Declining Volume = The result is the Arms Index

## **Federal Reserve Data, Dates, Releases & Definitions**

### **2010 Scheduled FOMC Meetings:**

January 26-27; March 16; April 27-28; June 22-23; August 10; September 21; November 2-3; December 14.

### **Federal Funds Rate**

The rate set by the Federal Reserve and that banks charge each other to borrow money overnight (the overnight inter-bank lending rate). The Fed Funds target rate currently is between 0.00% and 0.25%; the most recent rate change being a 75 to 100-basis point rate cut on December 16<sup>th</sup>, 2008. This was the tenth rate cut after the Fed Funds Rate peaked at 5.25% on June 29<sup>th</sup>, 2007.

### **Discount Rate**

The interest rate charged to commercial banks and other depository institutions on loans they receive from the Federal Reserve. Currently at 0.50%. Most recent change was a 75-basis point rate cut on December 16<sup>th</sup>, 2008 at the regularly scheduled meeting. This past cut marked the ninth consecutive, the first coming on August 17<sup>th</sup>, 2007. The Discount Rate peaked at 6.00% on June 29<sup>th</sup>, 2007.

### **Money Supply**

The Federal Reserve controls the supply of money in the economy through open market operations with banks. If the Fed is buying U.S. Treasuries from banks, the banks receive cash, which they then can lend out. The Fed required banks to maintain reserves of ten percent of deposits. Therefore, for every dollar they receive by selling Treasuries to the Fed, \$9.00 can be lent out to borrowers. Therefore, new dollars are entering the economy. The Fed therefore drains liquidity from the economy through selling U.S. Treasuries to member banks.

|             |  |
|-------------|--|
| <b>M1-A</b> | currency plus demand deposits  |
| <b>M1-B</b> | M1-A plus other checkable deposits   |
| <b>M2</b>   | M1-B plus overnight repos, money market funds, savings and time deposits less than \$100,000,000 |
| <b>M3</b>   | M2 plus large time deposits and term repos   |
| <b>M4</b>   | M3 plus all other liquid assets  |

### **Statement by The Federal Reserve following the December 15<sup>th</sup>-16<sup>th</sup>, 2009 Meeting**

Information received since the Federal Open Market Committee met in November suggests that economic activity has continued to pick up and that the deterioration in the labor market is abating. The housing sector has shown some signs of improvement over recent months. Household spending appears to be expanding at a moderate rate, though it remains constrained by a weak labor market, modest income growth, lower housing wealth, and tight credit. Businesses are still cutting back on fixed investment, though at a slower pace, and remain reluctant to add to payrolls; they continue to make progress in bringing inventory stocks into better alignment with sales. Financial market conditions have become more supportive of economic growth. Although economic activity is likely to remain weak for a time, the Committee anticipates that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a strengthening of economic growth and a gradual return to higher levels of resource utilization in a context of price stability.

With substantial resource slack likely to continue to dampen cost pressures and with longer-term inflation expectations stable, the Committee expects that inflation will remain subdued for some time.

The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period. To provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve is in the process of purchasing \$1.25 trillion of agency mortgage-backed securities and about \$175 billion of agency debt. In order to promote a smooth transition in markets, the Committee is gradually slowing the pace of these purchases, and it anticipates that these transactions will be executed by the end of the first quarter of 2010. The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets.

In light of ongoing improvements in the functioning of financial markets, the Committee and the Board of Governors anticipate that most of the Federal Reserve's special liquidity facilities will expire on February 1, 2010, consistent with the Federal Reserve's announcement of June 25, 2009. These facilities include the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, the Commercial Paper Funding Facility, the Primary Dealer Credit Facility, and the Term Securities Lending Facility. The Federal Reserve will also be working with its central bank counterparties to close its temporary liquidity swap arrangements by February 1. The Federal Reserve expects that amounts provided under the Term Auction Facility will continue to be scaled back in early 2010. The anticipated expiration dates for the Term Asset-Backed Securities Loan Facility remain set at June 30, 2010, for loans backed by new-issue commercial mortgage-backed securities and March 31, 2010, for loans backed by all other types of collateral. The Federal Reserve is prepared to modify these plans if necessary to support financial stability and economic growth.

**Statement by The Federal Reserve following the November 3<sup>rd</sup>-4<sup>th</sup>, 2009 Meeting**

Information received since the Federal Open Market Committee met in September suggests that economic activity has continued to pick up. Conditions in financial markets were roughly unchanged, on balance, over the intermeeting period. Activity in the housing sector has increased over recent months. Household spending appears to be expanding but remains constrained by ongoing job losses, sluggish income growth, lower housing wealth, and tight credit. Businesses are still cutting back on fixed investment and staffing, though at a slower pace; they continue to make progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to remain weak for a time, the Committee anticipates that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will support a strengthening of economic growth and a gradual return to higher levels of resource utilization in a context of price stability.

With substantial resource slack likely to continue to dampen cost pressures and with longer-term inflation expectations stable, the Committee expects that inflation will remain subdued for some time.

In these circumstances, the Federal Reserve will continue to employ a wide range of tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period. To provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve will purchase a total of \$1.25 trillion of agency mortgage-backed securities and about \$175 billion of agency debt. The amount of agency debt purchases, while somewhat less than the previously announced maximum of \$200 billion, is consistent with the recent path of purchases and reflects the limited availability of agency debt. In order to promote a smooth transition in markets, the Committee will gradually slow the pace of its purchases of both agency debt and agency mortgage-backed securities and anticipates that these transactions will be executed by the end of the first quarter of 2010. The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets. The Federal Reserve is monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; William C. Dudley, Vice Chairman; Elizabeth A. Duke; Charles L. Evans; Donald L. Kohn; Jeffrey M. Lacker; Dennis P. Lockhart; Daniel K. Tarullo; Kevin M. Warsh; and Janet L. Yellen.

**Statement by The Federal Reserve following the March 16<sup>th</sup>-17<sup>th</sup>, 2009 Meeting**

Information received since the Federal Open Market Committee met in January indicates that the economy continues to contract. Job losses, declining equity and housing wealth, and tight credit conditions have weighed on consumer sentiment and spending. Weaker sales prospects and difficulties in obtaining credit have led businesses to cut back on inventories and fixed investment. U.S. exports have slumped as a number of major trading partners have also fallen into recession. Although the near-term economic outlook is weak, the Committee anticipates that policy actions to stabilize financial markets and institutions, together with fiscal and monetary stimulus, will contribute to a gradual resumption of sustainable economic growth.

In light of increasing economic slack here and abroad, the Committee expects that inflation will remain subdued. Moreover, the Committee sees some risk that inflation could persist for a time below rates that best foster economic growth and price stability in the longer term.

In these circumstances, the Federal Reserve will employ all available tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and anticipates that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. To provide greater support to mortgage lending and housing markets, the Committee decided today to increase the size of the Federal Reserve's balance sheet further by purchasing up to an additional \$750 billion of agency mortgage-backed securities, bringing its total purchases of these securities to up to \$1.25 trillion this year, and to increase its purchases of agency debt this year by up to \$100 billion to a total of up to \$200 billion. Moreover, to help improve conditions in private credit markets, the Committee decided to purchase up to \$300 billion of longer-term Treasury securities over the next six months. The Federal Reserve has launched the Term Asset-Backed Securities Loan Facility to facilitate the extension of credit to households and small businesses and anticipates that the range of eligible collateral for this facility is likely to be expanded to include other financial assets. The Committee will continue to carefully monitor the size and composition of the Federal Reserve's balance sheet in light of evolving financial and economic developments.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; William C. Dudley, Vice Chairman; Elizabeth A. Duke; Charles L. Evans; Donald L. Kohn; Jeffrey M. Lacker; Dennis P. Lockhart; Daniel K. Tarullo; Kevin M. Warsh; and Janet L. Yellen.

### **Statement by The Federal Reserve following the December 15<sup>th</sup>-16<sup>th</sup>, 2008 Meeting**

The Federal Open Market Committee decided today to establish a target range for the federal funds rate of 0 to 1/4 percent.

Since the Committee's last meeting, labor market conditions have deteriorated, and the available data indicate that consumer spending, business investment, and industrial production have declined. Financial markets remain quite strained and credit conditions tight. Overall, the outlook for economic activity has weakened further.

Meanwhile, inflationary pressures have diminished appreciably. In light of the declines in the prices of energy and other commodities and the weaker prospects for economic activity, the Committee expects inflation to moderate further in coming quarters.

The Federal Reserve will employ all available tools to promote the resumption of sustainable economic growth and to preserve price stability. In particular, the Committee anticipates that weak economic conditions are likely to warrant exceptionally low levels of the federal funds rate for some time.

The focus of the Committee's policy going forward will be to support the functioning of financial markets and stimulate the economy through open market operations and other measures that sustain the size of the Federal Reserve's balance sheet at a high level. As previously announced, over the next few quarters the Federal Reserve will purchase large quantities of agency debt and mortgage-backed securities to provide support to the mortgage and housing markets, and it stands ready to expand its purchases of agency debt and mortgage-backed securities as conditions warrant. The Committee is also evaluating the potential benefits of purchasing longer-term Treasury securities. Early next year, the Federal Reserve will also implement the Term Asset-Backed Securities Loan Facility to facilitate the extension of credit to households and small businesses. The Federal Reserve will continue to consider ways of using its balance sheet to further support credit markets and economic activity.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; Christine M. Cumming; Elizabeth A. Duke; Richard W. Fisher; Donald L. Kohn; Randall S. Kroszner; Sandra Pianalto; Charles I. Plosser; Gary H. Stern; and Kevin M. Warsh.

In a related action, the Board of Governors unanimously approved a 75-basis-point decrease in the discount rate to 1/2 percent. In taking this action, the Board approved the requests submitted by the Boards of Directors of the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Minneapolis, and San Francisco. The Board also established interest rates on required and excess reserve balances of 1/4 percent.

### **Statement by The Federal Reserve following the September 16<sup>th</sup>, 2008 Meeting**

#### **Joint Statement by Central Banks**

Throughout the current financial crisis, central banks have engaged in continuous close consultation and have cooperated in unprecedented joint actions such as the provision of liquidity to reduce strains in financial markets.

Inflationary pressures have started to moderate in a number of countries, partly reflecting a marked decline in energy and other commodity prices. Inflation expectations are diminishing and remain anchored to price stability. The recent intensification of the financial crisis has augmented the downside risks to growth and thus has diminished further the upside risks to price stability.

Some easing of global monetary conditions is therefore warranted. Accordingly, the Bank of Canada, the Bank of England, the European Central Bank, the Federal Reserve, Sveriges Riksbank, and the Swiss National Bank are today announcing reductions in policy interest rates. The Bank of Japan expresses its strong support of these policy actions.

#### **Federal Reserve Actions**

The Federal Open Market Committee has decided to lower its target for the federal funds rate 50 basis points to 1-1/2 percent. The Committee took this action in light of evidence pointing to a weakening of economic activity and a reduction in inflationary pressures.

Incoming economic data suggest that the pace of economic activity has slowed markedly in recent months. Moreover, the intensification of financial market turmoil is likely to exert additional restraint on spending, partly by further reducing the ability of households and businesses to obtain credit. Inflation has been high, but the Committee believes that the decline in energy and other commodity prices and the weaker prospects for economic activity have reduced the upside risks to inflation.

The Committee will monitor economic and financial developments carefully and will act as needed to promote sustainable economic growth and price stability.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; Timothy F. Geithner, Vice Chairman; Elizabeth A. Duke; Richard W. Fisher; Donald L. Kohn; Randall S. Kroszner; Sandra Pianalto; Charles I. Plosser; Gary H. Stern; and Kevin M. Warsh.

In a related action, the Board of Governors unanimously approved a 50-basis-point decrease in the discount rate to 1-3/4 percent. In taking this action, the Board approved the request submitted by the Board of Directors of the Federal Reserve Bank of Boston.

**Statement by The Federal Reserve following the September 16<sup>th</sup>, 2008 Meeting**

The Federal Open Market Committee decided today to keep its target for the federal funds rate at 2 percent.

Strains in financial markets have increased significantly and labor markets have weakened further. Economic growth appears to have slowed recently, partly reflecting a softening of household spending. Tight credit conditions, the ongoing housing contraction, and some slowing in export growth are likely to weigh on economic growth over the next few quarters. Over time, the substantial easing of monetary policy, combined with ongoing measures to foster market liquidity, should help to promote moderate economic growth.

Inflation has been high, spurred by the earlier increases in the prices of energy and some other commodities. The Committee expects inflation to moderate later this year and next year, but the inflation outlook remains highly uncertain.

The downside risks to growth and the upside risks to inflation are both of significant concern to the Committee. The Committee will monitor economic and financial developments carefully and will act as needed to promote sustainable economic growth and price stability.

## **Limits, Limitations, Data & Dates**

### **Social Security Data ([www.ssa.gov/pressoffice/colafacts2004.htm](http://www.ssa.gov/pressoffice/colafacts2004.htm))**

- |  |                       |
|--|-----------------------|
| • New York Tax Freedom Day for 2009                        | May 5 <sup>th</sup>   |
| • 2010 Social Security Cost of Living Adjustment (COLA)    | 0.0%                  |
| • Average Monthly Benefit                                  | \$1,153. (+\$63.)     |
| • 2008 Social Security Wage Base                           | 102,700. (\$97,500.)  |
| • Social Security Recipients Under Age 65 in 2008 Can Earn | \$13,560. (\$12,960.) |
| • Social Security Recipients At Full S.S. Retirement Age   | Unlimited             |

### **Re-characterization of Roth IRA back to Traditional IRA**

The Internal Revenue Service gives you up to October 15<sup>th</sup> of the year following the year of the Roth conversion to re-characterize that conversion. So for 2005 Roth conversions, the re-characterization deadline is October 15, 2003. The re-characterization treats the funds as if the conversion had never occurred. Should you re-characterize, don't forget to file an amended return and claim a refund for any tax paid on the conversion.

### **Retirement Savings Facts**

- 2007 401(k) limits are \$15,500 for individuals under fifty years of age.
- 2007 401(k) limits for over age fifty are an additional \$5,000 as a catch-up provision.
  
- 2007 IRA limits are \$4,000 for individuals under fifty years of age.
- 2007 IRA limits are \$5,000 for individuals over fifty years of age.
  
- 2007 Roth IRA contributions phased out for Joint Filers w/ AGI between \$156,000 and \$166,000.
- 2007 Roth IRA contributions phased out for Individual Filers w/ AGI between \$99,000 and \$114,000.

### **Estate Tax Exclusion Limits**

- 2007 & 2008 Federal Estate Tax Exclusion will remain at \$2 million.
- 2009 Federal Estate Tax Exclusion increases to \$3.5 million.
- 2010 Federal Estate Tax Exclusion decreases to \$0.
- 2011 Federal Estate Tax Exclusion increases to \$1 million.

**CORPORATE NEWS & EARNINGS REPORTS**

*(Please note that all opinions are as of the date indicated and are not meant to be a specific recommendation on your particular situation, but just a general opinion on the appreciation potential of the stock at its current price.)*

| <b>Common Stock &amp; Equity ETF Portfolio Holdings**</b>           |                              |               |  |  |   |
|---|------------------------------|---------------|--|--|---|
| <b>Ranked by Market Value as of November 30<sup>th</sup>, 2009.</b> |                              |               |  |  |   |
| <b>Percent of Common Stock</b>                                      | <b>Company Name</b>          | <b>Symbol</b> | <b>As of Nov 30<sup>th</sup>, 2009</b> | <b>As of Oct 31<sup>st</sup>, 2009</b> | <b>As of Sept 30<sup>th</sup>, 2009</b> |
| 6.33%   | Hewlett Packard              | HPQ           | 1                                      | 1                                      | 1                                       |
| 5.62%   | Apple Computer               | AAPL          | 2                                      | 2                                      | 2                                       |
| 4.63%   | General Electric             | GE            | 3                                      | 4                                      | 4                                       |
| 4.18%   | JP Morgan Chase              | JPM           | 4                                      | 3                                      | 3                                       |
| 3.77%   | McDonald's Corporation       | MCD           | 5                                      | 5                                      | 5                                       |
|   |                              |               |  |  |   |
| 3.17%   | Exxon Mobil                  | XOM           | 6                                      | 6                                      | 6                                       |
| 2.89%   | Nike, Inc.                   | NKE           | 7                                      | 7                                      | 7                                       |
| 2.87%   | MasterCard, Inc.             | MA            | 8                                      | 8                                      | 10                                      |
| 2.72%   | Conoco Phillips              | COP           | 9                                      | 9                                      | 13                                      |
| 2.60%   | Pepsico, Inc.                | PEP           | 10                                     | 10                                     | 9                                       |
|   |                              |               |  |  |   |
| 2.36%   | Intel Corp.                  | INTC          | 11                                     | 11                                     | 8                                       |
| 2.30%   | Johnson & Johnson            | JNJ           | 12                                     | 12                                     | 11                                      |
| 2.19%   | S&P 500 ADR's                | SPY           | 13                                     | 13                                     | 12                                      |
| 2.01%   | Cisco Systems, Inc.          | CSCO          | 14                                     | 14                                     | 14                                      |
| 1.63%   | Emerson Electric Co.         | EMR           | 15                                     | 18                                     | 16                                      |
|   |                              |               |  |  |   |
| 1.63%   | Pfizer, Inc.                 | PFE           | 16                                     | 16                                     | 21                                      |
| 1.60%   | iShares DJ Select Divd Index | DVY           | 17                                     | 17                                     | 17                                      |
| 1.41%   | Celgene Corp.                | CELG          | 18                                     | 19                                     | 19                                      |
| 1.38%   | Bank of America              | BAC           | 19                                     | 20                                     | 18                                      |
| 1.26%   | Foster Wheeler               | FWLT          | 20                                     | 21                                     | 20                                      |
|   |                              |               |  |  |   |
| 1.14%   | Suncor Energy                | SU            | 21                                     | 24                                     | 23                                      |
| 1.14%   | Microsoft Corp.              | MSFT          | 22                                     | 23                                     | 24                                      |
| 1.13%   | Diageo, PLC ADRs             | DEO           | 23                                     | 32                                     | 39                                      |
| 1.07%   | Ford Motor Company           | F             | 24                                     | 48                                     | 50                                      |
| 1.05%   | Dell Computer                | DELL          | 25                                     | 22                                     | 22                                      |
|   |                              |               |  |  |   |
| 1.04%   | Oracle Corporation           | ORCL          | 26                                     | 25                                     | 25                                      |
| 0.63%   | Research In Motion           | RIMM          | 50                                     | 15                                     | 15                                      |

*Portfolio Concentration: Top 25 holdings represent 62.05% of the common stock portfolio, as of November 30<sup>th</sup>, 2009.*

| <b>Largest Mutual Fund Holdings as of November 30<sup>th</sup>, 2009.</b> |                                    |   |
|---|------------------------------------|---|
| <b>Domestic Equity Funds</b>  | <b>International Equity Funds</b>  | <b>Hybrid/Fixed Income/ Muni Fund/ETF</b> |
| AF Capital Income Builder   | William Blair International Growth | Payden GNMA Fund                          |
| Schwab 1000 Select Fund   | BLDRS Emerging Markets             | Loomis Sayles Bond Fund                   |
| Baron Asset Fund  | Tweedy Browne Global Value         | PIMCO Total Return                        |
| Parnassus Equity Income Fund  | BLDRS Asia 50 ADR Index            | iShares Lehman Bros TIPS                  |
| Marsico Focused Fund  | Janus Overseas                     | MetWest Total Return Bond Fund            |

**Common Stock & Equity ETF Portfolio Holdings\*\***  
**Ranked by *Share Balance* as of November 30<sup>th</sup>, 2009.**

| <b>Notes &amp; Stock Splits;<br/>Avg. Cost Per Share</b> |    |     | <b>Company Name</b>      | <b>Symbol</b> | <b>As of<br/>Nov 30<sup>th</sup>, 2009</b> | <b>As of<br/>Oct 31<sup>st</sup>, 2009</b> | <b>As of<br/>Sept 30<sup>th</sup>, 2009</b> |
|--|----|-----|--------------------------|---------------|--|--|---|
| \$23.53  | 1  | 1   | General Electric         | GE            | 132,817                                    | 119,587                                    | 121,411                                     |
| \$42.80  | 2  | 2   | Hewlett Packard Co.      | HPQ           | 59,276                                     | 58,676                                     | 58,786                                      |
| \$19.19  | 3  | 3   | Intel Corporation        | INTC          | 56,418                                     | 55,938                                     | 59,331                                      |
| \$6.61   | 4  | 8   | Ford Motor Company       | F             | 55,495                                     | 38,870                                     | 37,370                                      |
| \$40.05  | 5  | 4   | JP Morgan Chase          | JPM           | 45,181                                     | 44,925                                     | 45,225                                      |
|  |    |     |                          |               |  |  |   |
| \$17.33  | 5  | 5   | Pfizer, Inc.             | PFE           | 41,225                                     | 40,865                                     | 36,433                                      |
| \$20.97  | 6  | 6   | Bank of America          | BAC           | 39,973                                     | 39,973                                     | 38,973                                      |
| \$23.57  | 7  | 7   | Cisco Systems            | CSCO          | 39,488                                     | 39,203                                     | 39,623                                      |
| \$10.36  | 8  | 9   | First Niagara Financial  | FNFG          | 35,086                                     | 34,693                                     | 35,143                                      |
| \$12.16  | 10 | 10  | Dell Computer            | DELL          | 34,185                                     | 34,465                                     | 34,465                                      |
|  |    |     |                          |               |  |  |   |
| \$14.40  | 11 | 11  | iPath DJ-AIG Natural Gas | GAZ           | 28,225                                     | 28,225                                     | 28,225                                      |
| \$12.85  | 12 | 12  | Duke Realty Corp.        | DRE           | 27,520                                     | 27,520                                     | 26,750                                      |
| \$41.44  | 13 | 13  | McDonalds Corp.          | MCD           | 27,372                                     | 26,277                                     | 26,152                                      |
| \$45.80  | 14 | 14  | Conoco Phillips          | COP           | 24,110                                     | 23,225                                     | 21,115                                      |
| \$8.54   | 15 | 23  | TrustCo                  | TRST          | 22,745                                     | 18,454                                     | 18,705                                      |
|  |    |     |                          |               |  |  |   |
| \$19.71  | 16 | 15  | Oracle Corporation       | ORCL          | 21,669                                     | 21,529                                     | 21,634                                      |
| \$12.65  | 17 | 16  | China Green Agriculture  | CGA           | 20,620                                     | 19,915                                     | 19,915                                      |
| \$59.78  | 18 | 17  | Nike, Inc.               | NKE           | 20,467                                     | 19,802                                     | 19,146                                      |
| \$35.30  | 19 | 19  | Exxon Mobil              | XOM           | 19,407                                     | 19,407                                     | 19,993                                      |
| \$21.86  | 20 | 20  | Foster Wheeler           | FWLT          | 19,340                                     | 19,340                                     | 19,340                                      |
|  |    |     |                          |               |  |  |   |
| \$15.73  | 21 | 18  | SPDR Select Tech         | XLK           | 19,295                                     | 19,740                                     | 19,845                                      |
| \$63.27  | 22 | 21  | Pepsico, Inc.            | PEP           | 19,208                                     | 19,208                                     | 19,322                                      |
| \$15.43  | 23 | 22  | Mylan Labs               | MYL           | 18,750                                     | 18,750                                     | 18,750                                      |
| \$23.18  | 24 | N/A | Ebay Inc.                | EBAY          | 18,410                                     | 0  | 0   |
| \$41.52  | 25 | 24  | Emerson Electric         | EMR           | 18,120                                     | 17,880                                     | 17,940                                      |
|  |    |     |                          |               |  |  |   |
| \$28.06  | 26 | 25  | Microsoft Corp.          | MSFT          | 17,754                                     | 17,759                                     | 17,784                                      |

\*\*Please note that all data listed on this and the preceding page are for general information purposes only and are not meant to be specific recommendations. Any change in ranking by either market value or share balance are not meant to conclude that Fagan Associates recommends a purchase or sale of the referenced security. Please consult with your financial advisor prior to making any changes to your portfolio.

## *Market Commentary*

### ***“Try The Irrational”***

*The Record, 03.29.2009*

As human beings, most of us are rational. We don't run in front of moving cars or put our hands on hot stovetops. Quite often becoming a successful investor requires that you take a seemingly irrational step. The more rational you are the less likely you are to buy low and sell high and the less likely you are to have faith that it's not different time. It is for this reason that, after talking to many investors, clients and non-clients alike, that we thought within the body of this column we would, in no particular order, present some thoughts and questions for the readers regarding investing.

If the entire objective of investing is to buy low and sell high, why then when investors have the chance to actually buy low and sell high very few do?

If it has never been “different this time” before regarding the stock market, why then do investors think it is different this time and investing will never again be profitable? If you do think it is different this time and it is not then you may also be making a life changing decision.

At the top of a bull market there are few pessimists. At the bottom of a bear market there are few optimists.

From top to bottom the S&P 500 dropped more than fifty-six percent. Sounds to us like it priced in a pretty severe recession.

Sometimes you can do everything right and still not be rewarded. That doesn't mean you aren't making the right choices. We recognize that stocks have gone nowhere in more than a decade. We recognize that this is very frustrating. We recognize that you are feeling somewhat insecure. However, whenever we think of this we are reminded of the author of “The Complete Book of Running,” James Fixx, a picture of health who was very instrumental in converting millions of Americans during the 1970's, including ourselves, into avid runners. Unfortunately, Mr. Fixx died at the age of fifty-two from a heart condition while running in Vermont. Is the moral of this story that Mr. Fixx should have not exercised and not eaten healthy or is it that sometimes things just don't work out as planned? We would suggest the latter.

We often get the claim that “I'm going to get back into the market once the economy looks better.” To that we respond that the stock market is a discounting mechanism and it therefore bottoms approximately six to nine months ahead of economic turns for better and for worse.

This is the worst economic downturn since the Great Depression. Pure rhetoric. Who says? During the 1970's the national unemployment rate peaked above nine percent; inflation was above ten percent and mortgage rates were above fifteen percent. Despite the fact that things may get worse, as of today unemployment is just over eight percent; inflation is near two percent and mortgage rates are at a forty year low, 4.85%.

Gold is a hedge against inflation and not an asset class.

At the current time, investors are experiencing the worst ten-year stretch since the ten years ending 1938. Sounds like investors over the next ten years might be amply rewarded for their pain they have endured over the prior ten.

At the bottom of the bear market most investors will be severely under allocated to stocks.

This is just some food for thought. We all have different goals and objectives. We all have different sources of income leading up to and in retirement so that we must all plan accordingly. However, over the past century, for the average American the surest way to achieve wealth has been through investing in the stock market. Oh, we forgot. It's different this time.

## ***“Perform Your Own Stress Test”***

*The Record, 03.01.2009*

Beginning this past Wednesday and continuing through the end of April, U.S. Federal Bank and Thrift Supervisors will be conducting an extensive analysis of banking institutions with assets greater than \$100 billion to determine if such banks have sufficient capital buffers to withstand “the impact of an economic environment that is more challenging than is currently anticipated.” According to this agency, this assessment will test financial institutions under a “baseline scenario [that] reflects a consensus expectation among private forecasters and the more adverse scenario [that] reflects a deeper and longer recession.” The more adverse scenario includes unemployment rates above ten percent and a housing market that continues to decline.

With this in mind, we believe that investors should conduct their own “stress test” to determine whether or not the current allocation of their assets can withstand a stock market that continues to decline. The question that this stress test should answer is “if the stock market declines another twenty percent from its present level of approximately 7,270 on the Dow Jones Industrial Average and remains at this subdued level of approximately 5,800, will my standard of living be impacted, and, if so, to what extent?”

When performing the above referenced stress test, be careful to include all of your assets that can produce income such as a Defined Benefit Pension Plan, Social Security, and the values of your 401(k), 403(b) or other Employer-Sponsored Defined Contribution Plan. If you are already retired, include a conservative value of your home for a potential reverse mortgage. On the liability side, don’t forget your daily living expenses as well as entertainment costs and gifts in addition to housing costs, insurance costs, energy costs and the cost of your automobile.

If the outcome of your own stress test indicates that your life will not change, then ignore the noise coming out of the financial markets and focus on what is really important, your life. If, however, a decline to this extent would impact your standard (quality) of life, then perhaps you should make some changes to your investment portfolio. Or, if you are retired, perhaps what you will leave to your heirs might need to be adjusted. If such an unanticipated “adverse scenario” becomes a reality, tough choices, like this, might be necessary to preserve your standard of living.

The probability of such a scenario is relatively low, less than twenty-five percent, but if you were to conduct such a stress test, it may allow you to invest more appropriately for your needs without the mental highs and lows that are part and parcel of a bear market.

Finally, if you pass your own stress test, be patient and let time heal our economic woes. We realize that this may be difficult because we live in a media-saturated country, a country where instant gratification is the rule rather than the exception, in a country where solutions such as liposuction and diet pills garner attention rather than diet and exercise. Once again, we ask that should you pass your own stress test, be patient and tune out the daily noise.

## ***“Goldman Sachs Is Right on Target”***

*The Record, 01.14.2008*

This past Wednesday, in a note to clients, economists at renowned investment bank Goldman Sachs, the brokerage firm that was brilliantly shorting and therefore profiting from fixed-income products that were related to the subprime mortgage mess, predicted that the U.S. economy would enter into a modest recession during 2008. We couldn't agree more.

Most economists define a recession as two consecutive quarters of negative growth in Gross Domestic Product (GDP) which, also by definition, measures the expansion or contraction of the economy of a nation. Goldman Sachs predicts that “the recession is likely to last two to three quarters and should be relatively mild by historical standards, with a cumulative decline in GDP of only about a half percent,” this according to Goldman Sachs economists' Jan Hatzius and Ed McKelvey. For all of 2008, Goldman Sachs expects GDP to rise by 0.8%. According to the two economists, keeping the recession “relatively mild” is the assumption that the Open Market Committee of the Federal Reserve, the body that determines the direction of short-term interest rates, will aggressively lower rates in order to provide liquidity to the credit markets and ease the credit crunch. Ultimately, the impact of this mild recession will be an increase in the unemployment rate from its current level of 5.0% to 6.25% by the end of this calendar year.

All of the above loudly begs the question, **“fine, but what does this mean for my investments?”** Simply put, we believe that during the fourth quarter of 2007 the U.S. economy entered a period of slow to somewhat stagnant economic growth that will most likely last throughout the majority of 2008. Whether this is the slight majority or vast majority of 2008 has everything to do with just how aggressive the Fed is when it responds to interest rates. Thus far, we believe that the Fed has not acted aggressively enough when regarding interest rates and that the downturn in the economy, if one thinks of it as a moving car or other vehicle, has maintained its distance over the Fed. The Fed must do something to close this gap and to eventually move ahead of the economic downturn. It is with the efforts of the Fed, perhaps along with fiscal (tax) policy relief coming from congress and the Bush Administration that the economy will eventually turn for the better.

The Chairman of the Federal Reserve, Ben Bernanke, in a recent luncheon speech in Washington, D.C., stated that the Fed stands “ready to take substantive additional action as needed to support growth and to provide adequate insurance against downside risks.” The jury is still out as to what Chairman Bernanke defines as “substantive” when it comes to the action required to stem the economic downturn that is facing America.

To determine where the stock market may go one must look back at historical data. We did just that and found that during economic downturns when the Federal Reserve has lowered interest rates at three consecutive meetings, the stock market has responded favorably as measured by a time frame of one year. In fact, there have been thirteen times in which the Fed has cut interest rates at three consecutive meetings and the stock market has been higher one year later on every occasion, save one. That was during the early 1930's when the United States was on the verge of the Great Depression. Therefore, if you believe as we do, that we are not entering into an era of depression, stock investors have a golden opportunity to add to their holdings and reap capital gains one year hence. Unfortunately, during times like this it is very uncomfortable to invest in stocks, but we cannot see anything other type of investment that we would rather be in than equities. That said, maintain a disciplined investment approach and always have a plan for selling a position after making the purchase.

## **“Secular vs. Cyclical Bear Market”**

The Record, 05.11.2003

There is a great debate raging in the investment community over whether we have entered a **secular** bear market or have we, since early 2000, merely been correcting the excesses of the late 1990's in a **cyclical** bear market within a bull market that began in 1982. For the purposes of this article, secular can be defined as the general trend (or climate) that lasts for a long period of time. Typically, the secular pattern is dotted with abnormalities that run counter to the overriding trend, but are relatively short in nature. For example, the Dow Jones Industrial Average rose from a closing level of 776.90 on August 12, 1982 to 11,723.00 on January 14, 2000 for a gain of more than 1400%! However, within this long-term or secular bull market there were four cyclical or short-term bear markets including one that lasted approximately three months in 1987; one that lasted approximately four months during 1990; one that lasted ten months during 1994; and one that lasted a mere two months during 1998.

Prior to the beginning of **this bear market that has now lasted nearly forty months**, the longest bear market since the beginning of the secular bull that dates back to 1982, was the bear of 1994 that lasted ten months. *Keep in mind that it is not only the depth of a bear market, but the length of one that determines an investor's appetite or lack of appetite for stocks!*

Having analyzed a secular bull market, one that perhaps concluded in early 2000, let us now turn our attention to the most recent secular bear market, one that peaked on February 9, 1966 at Dow 995.20 and one that, fifteen years later, on February 9, 1981 closed at Dow 947.20, obviously below the prior high set one and one-half decades ago! It is interesting to note that within the secular bear, there were no less than four cyclical bull markets; one that lasted twenty-six months, from October 7, 1966 to December 3, 1968 when the Dow rose from 744.30 to 985.20 representing a gain of 32.37%; one that lasted more than thirty-one months, from May 26, 1970 to January 11, 1973 when the Dow rose from 631.20 to 1051.70 representing a gain of 66.62%; a cyclical bull that lasted twenty-two months, from December 6, 1974 to September 21, 1976 when the Dow rose from 577.60 to 1014.80 representing a gain of 75.69%; and a move that lasted nearly three years, from March 6, 1978 to February 9, 1981 when the Dow rose from 742.70 to 947.20 representing a gain of 27.53%.

It is safe to conclude from the above paragraph that it is possible to make money in a flat, secular bear market. (Please note that the data utilized above does not include dividends.) The heavy nature of this article hopefully reflects the importance of the following question and the impact that this question will have upon your financial future. Is this a long-term bear or a pause amidst the bull that began in 1982?

Despite the fact that it is too early to tell whether this is a cyclical bear market or a secular bear market, it is important to note that regardless of which type of market we are in, the Dow has risen more than 17.70% off its recent lows; the S&P 500 close to 20% while the NASDAQ Composite has risen more than thirty-five percent indicating a bullish pattern. It will be interesting to see how the bears react if the Dow rises more than twenty percent from its closing low of 7286.27 set on October 9, 2002. A close above twenty percent is the definition of a bull market trend. This will happen if the Dow closes at or above 8743.52 and will put the pressure on the bears.

Despite the question of whether we may be about to embark on a new secular bull market or a cyclical bull within a secular bear, investors should have upside and downside targets for their stocks and utilize stop/loss provisions to protect their capital. Stay tuned.

***“China, A Country to Reckon With”***

*The Record, 05.02.2004*

As investors receive and then open their April statements sometime later next week or early the following week and see the slight decline in their portfolio values, it will probably occur to only a few of them that the Chinese economy may be to blame.

Late this past week, in an effort to slow down an economy that had grown at an annualized rate of 9.7% during the first quarter of 2004, Chinese economic officials told banks to stop lending to certain industries, including the aluminum, cement, real estate and steel industries, fearing that their economy was in danger of overheating. Furthermore, the People’s Bank of China has decided to raise interest rates for the first time since 1955 also indicative of their intention to slow the economy to a more sustainable pace.

Given the fact that many, including us, attribute a good portion of the run-up in commodity prices to soaring demand from China, we thought it would be a good idea to familiarize readers of our column to some of the demographics and demand emanating from the Chinese.

China is the most populous country in the world with over 1.29 billion people inhabiting an area slightly smaller than Canada, but larger than the United States. This represents approximately one-fifth of the global population. According to the State Statistical Bureau for the People’s Republic of China and noted in a Prudential Research report, “the percent of the population living in rural areas fell to 61% last year, down from 79% in 1982 and 88% in 1952. This trend toward urbanization is very similar to the experience in the United States during the 1800s and through the 1970s. In 1800, 94% of the U.S. population resided in rural areas. By 1900, this percentage declined to 60%. It fell to a record low of 26% in the 1970s.” The result is an average annual increase of urban population of approximately 20 million people!

China’s main source of energy comes from coal, which they mine themselves. China consumes approximately 5.4 million barrels of oil per day, a number which should increase to approximately 7 million barrels per day by 2010. By contrast, the United States consumes over twenty million barrels per day. China now imports approximately 30% of its oil consumption.

There are ten million cars, trucks, and buses in all of China. This compares with 134 million registered cars, trucks, and buses in the United States.

China consumes approximately 50% of the world’s cement, and 36% of its annual production of steel.

The average hourly earnings of a Chinese manufacturing worker is \$0.61 compared with the average hourly earnings of a United States worker of \$16.14! Despite being the largest country in terms of population, there are more than one hundred countries in the world with higher per capita incomes!

Agriculturally, China’s annual grain output is approximately 500 million tons, not enough to feed the billion-plus people. Therefore, China is a net importer of grain. With the United States, this amounted to over 800 million bushels of soybeans during 2003. All this with only 7% of the world’s farmable land.

With China’s population increasing by approximately ten million people per year and with average hourly earnings well under \$1.00, the economic potential is mind boggling. However, thinking back to the trials and struggles of the United States over the past two centuries and one realizes that this potential will not be easily realized. Investors in China must be patient. However, we believe this patience will be well-reward over the next three to five years.

