First Trust

TALKING POINTS

A Recap of July 2008

The Economy

The consensus forecast from the Blue Chip Economic Indicators newsletter released in July '08 called for 1.3% real GDP growth for the U.S. in Q3'08, down from last month's 1.5% projection. Its GDP forecast for Q4'08 is 0.6%, down from 1.2% a month ago. GDP growth in Q2'08 was 1.9%, slightly below the consensus estimate of 2.3%, according to Bloomberg. GDP growth for Q1 was revised higher to 1.0%. GDP growth in Q2 was likely aided by the rebate checks from the government. Over 75% of the $106 billion earmarked for individuals has been distributed, according to the newsletter.

Consumer Confidence	**51.9** (Jul)	50.4 (Jun)	Up
Crude Oil (Mo.-End)	**$124.08** (Jul)	$140.00 (Jun)	Down
Personal Spending	**0.6%** (Jun)	0.8% (May)	Up
ISM Manufacturing	**50.0** (Jul)	50.2 (Jun)	Down
ISM Non-Manufacturing	**49.5** (Jul)	48.2 (Jun)	Up
Gold (Mo.-End)	**$913.90** (Jul)	$928.30 (Jun)	Down
Natural Gas (Mo.-End)	**$9.12** (Jul)	$13.35 (Jun)	Down
Construction Spending	**-0.4%** (Jun)	-0.4% (May)	Down
New Home Sales	**530,000** (Jun)	512,000 (May)	Up
Existing Home Sales	**4.86M** (Jun)	4.99M (May)	Down

The Stock Market

Indices (Source: Bloomberg)	July	Y-T-D
S&P 500	-0.84%	-12.65%
DJIA	0.43%	-12.99%
Nasdaq 100	0.67%	-11.09%
S&P 400	-1.85%	-5.68%
Russell 2000	3.70%	-6.02%
MSCI World (ex U.S.)	-3.55%	-12.54%
MSCI Emerging Markets	-3.75%	-15.13%

Top Sector/Subs (Source: S&P)	July	Y-T-D
Financials	6.8%	-26.2%
Diversified Banks	18.8%	-19.4%
Regional Banks	13.1%	-32.7%
Insurance Brokers	3.0%	1.3%
Industrial REITs	-10.1%	-22.9%

U.S. and foreign stocks were mixed in July. U.S. small-caps performed well in a tough climate. Sixty-six out of the 130 subsectors that comprise the S&P 500 posted gains, up from 10 last month. In July, the dividend-payers (384) in the S&P 500 (equal weight) posted a total return of -0.56%, vs. -0.21% for the non-payers (116), according to Standard & Poor's. Year-to-date, the payers declined 11.88%, vs. a loss of 11.46% for the non-payers. For the 12-month period ended July '08, payers fell 14.14%, vs. a decline of 16.16% for the non-payers. The number of dividend increases (S&P 500) year-to-date totaled 181. That lagged the 193 increases over the same period in 2007. S&P announced it has reduced the expected 2008 dividend payment for the S&P 500 from $30.30 to $28.85. It represents a 4% increase over the $27.73 registered in 2007, according to S&P. The Reuters/Jefferies CRB Index of commodities fell 10.01% in July – the 2nd worst performing month in the 5-decade history of the benchmark index, according to Lehman Brothers. The other big sell-offs were as follows: -10.54% (March '80); -7.97% (July '84); and -7.12% (September '06). In all three instances, the S&P 500 posted gains the following month. Those returns were as follows: 4.11% (April '80); 10.63% (August '84); and 3.15% (October '06).

U.S. Dollar (U.S. Trade-Weighted Basket)	**1.1%** (July)	-3.8% (Y-T-D)	$ was down 10.0% in '07	Up
CBOE Total Equity Options (# of contracts in millions)	**67.2** (7/31)	54.4 (6/30)	*Record 7/08: 67.2 million*	Up
Short Interest (NYSE)	Jul 15: **18.61B** (+5.44%)	Jun 13: 17.65B (+10.31%)	*Record 7/08: 18.61 billion*	Up
S&P 500 P-E Ratio (Trailing 12-mo. earnings)	**20.83** (7/31)	20.53 (6/30)	*Avg. P-E is 20 over past 25 years*	Up

The Bond Market

Index (Source: Lehman)	July	Y-T-D	Yield
U.S. Treasury: Intermediate	0.55%	2.94%	2.97%
GNMA 30 Year	0.00%	1.84%	5.72%
Municipal Bond (22+)	-0.73%	-3.05%	5.39%
U.S. Aggregate	-0.08%	1.04%	5.14%
Intermediate Corporate	-0.46%	-0.51%	6.31%
U.S. Corporate High Yield	-1.33%	-2.62%	11.43%
Global Aggregate	0.14%	3.67%	4.46%
Global Emerging Markets	0.50%	1.18%	7.39%

The yield on the 10-Yr. T-Note fell 2 basis points in July closing at 3.95% – 79 basis points below the close on July 31, '07. The appetite for risk has diminished in response to rising defaults and the bailout of Fannie Mae and Freddie Mac. Spreads continue to widen on speculative-grade issues. As indicated in the box below, the spread between the High Yield Master II Index and the 10-yr. T-Note has grown to 735 basis points, up from 427 basis points a year ago. History suggests that a spread of 800 basis points or more makes the potential income advantage worth the risk, according to Martin Fridson, chief executive officer of Fridson Investment Advisors. Municipals are still struggling and states are taking in less revenue. Tax revenues increased a modest 1.7% (y-o-y) in Q1, the slowest growth rate since 2003, according to the Rockefeller Institute of Government.

Key Rates as of July 31

Fed Funds	2.00%
2-Yr. T-Note	2.51%
10-Yr. T-Note	3.95%
30-Yr. Mortgage	6.38%
Bond Buyer 40	5.32%

Key Yield Spread

The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 735 basis points on 7/31/08. It was 427 on 7/31/07 and 677 on 6/30/08. *(Source: Bloomberg)*

2008 Debt Issuance through June

(Source: Thomson Financial)

Debt Category	$ Amount	% change over '07
Corporate	$540.0 Billion	-17.1%
Convertible	$25.9 Billion	-48.1%
Asset-Backed	$123.5 Billion	-81.1%
Municipal	$229.0 Billion	-1.0%

The Investment Climate

Net cash outflows from equity funds totaled $4.8 billion in 6/08, vs. inflows totaling $15.9 billion in 5/08, according to the Investment Company Institute. Bond funds took in $4.6 billion, down from $17.3 billion in 5/08. Money Market funds reported outflows totaling $75.8 billion, vs. inflows totaling $48.1 billion in 5/08. Y-T-D thru 6/08, equity fund outflows totaled $20.4B, vs. $85.8B in bond fund inflows and $238.7B in MMF inflows.