

The Economy

Over the past few months, we focused a lot of our attention on GDP forecasts. We noted on more than one occasion that Brian Wesbury, Chief Economist at First Trust Advisors, was far more optimistic about the prospects for a rebound in growth in the U.S. than was the consensus forecast from the Blue Chip Economic Indicators survey of 52 economists. In fact, Wesbury has been steadfast in his call for a V-shaped recovery. The Blue Chip survey ramped up its annualized Q3'09 GDP forecast from 0.4% in April to 3.0% in September. As it turns out, the GDP growth rate was 3.5% in Q3.

Consumer Confidence 47.7 (Oct) 53.1 (Sep)	Crude Oil (Mo.-End) \$77.00 (Oct) \$70.61 (Sep)	Personal Spending -0.5% (Sep) 1.3% (Aug)	ISM Manufacturing 55.7 (Oct) 52.6 (Sep)	ISM Non-Manufacturing 50.6 (Oct) 50.9 (Sep)
Gold (Mo.-End) \$1040.40 (Oct) \$1008.00 (Sep)	Natural Gas (Mo.-End) \$5.05 (Oct) \$4.84 (Sep)	Factory Orders 0.9% (Sep) -0.8% (Aug)	New Home Sales 402,000 (Sep) 429,000 (Aug)	Existing Home Sales 5.57M (Sep) 5.10M (Aug)

The Stock Market

Indices (Source: Bloomberg)	Oct.	12-mo.	Thirty-nine out of the 134 subsectors that comprise the S&P 500 posted a gain in October, down from 109 last month. In October, the dividend-payers (358) in the S&P 500 (equal weight) posted a total return of -2.30%, vs. -6.20% for the non-payers (142), according to Standard & Poor's. Y-T-D, the payers are up 14.84%, vs. a gain of 46.98% for the non-payers. For the 12-month period ended October '09, payers were up 7.29%, vs. a gain of 31.30% for the non-payers. The number of dividend increases year-to-date totaled 119. That significantly lagged the 213 increases registered at this point in 2008. The number of companies that decreased their dividend totaled 65, up from 29 a year ago. Ten suspended their dividend payments, down from 16 a year ago. Both the S&P 500 and S&P 1500 had earnings beat rates of approximately 74% in the month of October, according to Bespoke Investment Group. Over the past decade, the percentage of companies that normally beat their quarterly earnings estimate was closer to 62%. While the VIX Index closed October at 30.69, its recent trend has been down. The VIX traded down to a recent low of 20.69 on 10/23. The VIX has averaged around 22 so far this decade. The last time the VIX fell below 20 for an extended period of time was from May 2003 through July 2007. From 4/30/03-7/31/07, the S&P 500 posted a cumulative return of 71.3%.
S&P 500	-1.9%	9.8%	
DJIA	0.1%	7.7%	
NASDAQ 100	-3.0%	25.8%	
S&P 400	-4.5%	18.2%	
Russell 2000	-6.8%	6.4%	
MSCI World (ex U.S.) (USD)	-1.6%	28.1%	
MSCI Emerging Markets (USD)	0.1%	63.5%	
Growth/Value (Source: Bloomberg)	Oct.	12-mo.	
S&P 500 Citigroup Growth	-0.2%	16.4%	
S&P 500 Citigroup Value	-3.6%	3.0%	
S&P Midcap 400/Citigroup Growth	-3.4%	21.9%	
S&P Midcap 400/Citigroup Value	-5.7%	14.5%	
Russell 2000 Growth	-6.9%	11.3%	
Russell 2000 Value	-6.6%	1.9%	

U.S. Dollar (U.S. Trade-Weighted Basket) -0.3% (Oct) -6.7% (Y-T-D) \$ was up 7.8% in '08	CBOE Total Equity Options (# of contracts in millions) Oct: 57.3 (+4.2%) Sep: 55.0 (+0.6%) Record 7/08: 67.2 million	Short Interest (NYSE) Oct 15: 13.4B (-0.7%) Sep 15: 13.5B (-4.9%) Record 7/08: 18.61 billion shares	VIX Volatility Index (S&P 500) 30.69 (10/30) 25.61 (9/30) Record 11/20/08: 80.86
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The Bond Market

Index (Source: Barclays)	Oct.	12-mo.	Yield	The yield on the 10-Yr. T-Bond rose 8 basis points in October closing at 3.39% – 57 basis points below its close (3.96%) on 10/31/08. With default rates expected to peak in December at around 13.5% (Moody's), interest in speculative-grade debt is up, and so is high yield corporate bond issuance. Investors have poured \$28 billion into high yield corporate bond funds so far in 2009, more than any full year's take since 1992, according to Lipper. Funds have reported net inflows for nine consecutive weeks. New issuance so far in Q4 has totaled just under \$42 billion – nearly eight times the sales of a year ago, according to Dealogic. At the peak of the credit crunch this past March, the Merrill Lynch High Yield Master II Index sported a yield of 20.73%. Its yield as of October 30 was 10.01%.
U.S. Treasury: Intermediate	0.19%	5.09%	1.84%	
GNMA 30 Year	0.62%	11.48%	4.10%	
Municipal Bond (22+)	-3.38%	20.71%	5.27%	
U.S. Aggregate	0.49%	13.79%	3.48%	
Intermediate Corporate	0.94%	26.50%	4.32%	
U.S. Corporate High Yield	1.80%	48.10%	10.02%	
Global Aggregate	0.47%	18.41%	2.98%	
Global Emerging Markets	0.92%	51.90%	6.59%	

Key Rates as of October 30	Key Yield Spread	2009 Debt Issuance thru 9/09																		
Fed Funds 0-0.25% 2-Yr. T-Note 0.89% 10-Yr. T-Bond 3.39% 30-Yr. Mortgage 5.16% Bond Buyer 40 5.27% (Source: Bloomberg)	The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Bond was 662 basis points on 10/30/09, down from 700 on 9/30/09. It was 1,482 on 10/31/08. (Source: Bloomberg)	(Source: Thomson Reuters) <table border="1"> <thead> <tr> <th>Debt Category</th> <th>\$ Amount</th> <th>% change over '08</th> </tr> </thead> <tbody> <tr> <td>Treasury</td> <td>\$1.43 Trillion</td> <td>+114.7%</td> </tr> <tr> <td>Corporate</td> <td>\$686.1 Billion</td> <td>+3.1%</td> </tr> <tr> <td>Convertible</td> <td>\$19.5 Billion</td> <td>-42.6%</td> </tr> <tr> <td>Asset-Backed</td> <td>\$131.5 Billion</td> <td>-2.2%</td> </tr> <tr> <td>Municipal</td> <td>\$288.8 Billion</td> <td>-10.1%</td> </tr> </tbody> </table>	Debt Category	\$ Amount	% change over '08	Treasury	\$1.43 Trillion	+114.7%	Corporate	\$686.1 Billion	+3.1%	Convertible	\$19.5 Billion	-42.6%	Asset-Backed	\$131.5 Billion	-2.2%	Municipal	\$288.8 Billion	-10.1%
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The Investment Climate

Net cash outflows from equity funds totaled \$10.5 billion in 9/09, vs. \$4.0 billion of inflows in 8/09, according to the Investment Company Institute. Bond fund inflows totaled \$47.5 billion, vs. \$43.0 billion of inflows in 8/09. Money Market funds outflows totaled \$127.5 billion, vs. \$53.8 billion of outflows in 8/09. Y-T-D thru September, equity fund inflows totaled \$4.3B, vs. \$267.7B of bond fund inflows & \$418.8B of MMF outflows.

Index	10-Yr. High Value	Date	10-Yr. Low Value	Date	Month-End Value	% Off High Value	YTD Return (USD)	Month-End Yield
S&P 500	1565.15	10/09/07	676.53	03/09/09	1036.19	-33.80%	17.05%	2.37%
S&P 500/Citigroup Growth	953.77	03/27/00	363.99	03/09/09	540.9	-43.29%	21.80%	1.64%
S&P 500/Citigroup Value	836.19	07/13/07	307.16	03/09/09	487.9	-41.65%	12.06%	3.20%
S&P 400	926.23	07/13/07	372.88	10/09/02	659.15	-28.84%	24.23%	1.62%
S&P 400/Citigroup Growth	383.7	06/05/08	162.27	10/09/02	287.77	-25.00%	29.00%	0.68%
S&P 400/Citigroup Value	361.18	06/04/07	122.86	02/25/00	237.28	-34.30%	19.58%	2.55%
S&P 100	832.65	03/24/00	322.13	03/09/09	482.31	-42.08%	14.25%	2.47%
DJIA	14164.53	10/09/07	6547.05	03/09/09	9712.73	-31.43%	13.65%	2.86%
NASDAQ 100	4704.73	03/27/00	804.64	10/07/02	1667.13	-64.56%	38.39%	0.62%
Russell 2000	855.77	07/13/07	327.04	10/09/02	562.77	-34.24%	14.12%	1.50%
Russell 2000 Growth	498.17	03/27/00	169.69	10/09/02	307.12	-38.35%	20.15%	0.64%
Russell 2000 Value	1276.63	06/04/07	465.24	04/14/00	783.34	-38.64%	8.63%	2.32%
Russell 3000	907.58	10/09/07	389.61	03/09/09	603.26	-33.53%	18.10%	2.21%
MSCI World x U.S. (USD)	2389.57	10/31/07	809.32	03/12/03	1539.34	-35.58%	28.70%	N/A
MSCI Emerging Markets (USD)	1338.49	10/29/07	245.64	09/21/01	914.26	-31.69%	64.43%	N/A
Bovespa/Brazil (USD)	73516.81	05/20/08	8370.88	10/16/02	61545.5	-16.28%	67.36%	3.28%
RTS/Russia (USD)	2487.92	05/19/08	95.5	11/03/99	1348.54	-45.80%	116.86%	1.31%
Bombay SE 500/India (USD)	8882.28	01/07/08	792.18	09/21/01	6142.43	-30.85%	72.77%	1.08%
Shanghai Composite/China (USD)	6092.057	10/16/07	1011.499	07/11/05	2995.848	-50.82%	66.94%	1.32%
Hang Seng (USD)	31638.22	10/30/07	8409.01	04/25/03	21752.87	-31.24%	55.42%	2.83%
MSCI Euro (USD)	1590.66	03/06/00	539.93	03/09/09	818.44	-48.55%	18.88%	4.05%
S&P Consumer Discretionary	318.54	06/04/07	125.72	03/09/09	211.1	-33.73%	26.41%	2.93%
S&P Consumer Staples	306.61	12/10/07	150.55	03/14/00	265.94	-13.26%	10.77%	2.93%
S&P Energy	668.81	05/20/08	163.83	07/23/02	422.22	-36.87%	11.30%	2.07%
S&P Utilities	223.91	12/10/07	77.27	10/09/02	144.15	-35.62%	1.17%	4.63%
S&P Financials	509.55	02/20/07	81.74	03/06/09	189.03	-62.90%	14.00%	2.07%
S&P Banks	414.38	02/20/07	49.02	03/05/09	124.33	-70.00%	-7.52%	2.91%
FTSE NAREIT Equity REITs	676.54	02/07/07	163.57	03/06/09	305.19	-54.89%	12.01%	5.08%
S&P Health Care	444.98	12/28/00	252.84	03/05/09	326.06	-26.72%	7.28%	2.26%
S&P Pharmaceuticals	496.83	12/28/00	214.5	03/03/09	277.68	-44.11%	6.69%	3.89%
NYSE Arca Biotechnology	964.97	09/21/09	254.04	11/02/99	821.04	-14.92%	26.87%	1.89%
S&P Information Technology	988.49	03/27/00	172.88	10/09/02	334.37	-66.17%	45.57%	0.95%
Philadelphia Semiconductor	1332.73	03/10/00	171.32	11/20/08	296.61	-77.74%	41.80%	1.55%
S&P Telecom Services	339.28	11/29/99	79	09/30/02	103.04	-69.63%	-2.26%	6.06%
S&P Industrials	381.16	10/09/07	132.83	03/09/09	221.11	-41.99%	9.47%	2.95%
S&P Materials	285.91	05/16/08	102.55	10/09/02	176.96	-38.11%	31.06%	2.26%
Philadelphia Gold & Silver	206.37	03/14/08	41.85	11/17/00	156.64	-24.10%	27.03%	0.55%
Reuters/Jefferies CRB	473.52	07/02/08	183.52	10/22/01	270.38	-42.90%	17.79%	N/A
Merrill Lynch Perpetual Preferred	197.851	05/08/07	51.791	03/09/09	126.923	-35.85%	19.24%	8.13%
Merrill Lynch High Yield Master II	218.565	10/27/09	106.667	10/10/02	217.862	-0.32%	51.78%	10.01%