

The Economy

Now that summer is coming to an end the focus of investors and the media is likely to shift to the November mid-term election. The issues destined to receive the bulk of the attention over the next two months are job creation and taxes. The nonfarm payroll number for August revealed a loss of 54,000 jobs, which was not good but better than expected. The Obama Administration is pushing a job program featuring tax incentives for small businesses. Such an approach would do little for the Democrats up for re-election. Will Congress buckle to the pressure and extend the Bush tax cuts?

Consumer Confidence 53.5 (Aug) 50.4 (Jul) 	Crude Oil (Mo.-End) \$71.92 (Aug)  \$78.95 (Jul)	Personal Spending  0.4% (Jul) June was 0.0%	ISM Manufacturing  56.3 (Aug) 55.5 (Jul)	ISM Non-Manufacturing  51.5 (Aug) 54.3 (Jul)
Gold (Mo.-End)  \$1249.00 (Aug) \$1181.70 (Jul)	Natural Gas (Mo.-End)  \$3.82 (Aug) \$4.92 (Jul)	Factory Orders  0.1% (Jul) June was -1.2%	New Home Sales  276,000 (Jul) 330,000 (Jun)	Existing Home Sales  3.83M (Jul) 5.37M (Jun)

The Stock Market

Indices (Source: Bloomberg)

	Aug	12-mo.
S&P 500	-4.5%	4.9%
DJIA	-3.9%	8.4%
NASDAQ 100	-5.1%	9.5%
S&P 400	-4.9%	11.9%
Russell 2000	-7.4%	6.6%
Russell 3000	-4.7%	5.7%
MSCI World (ex U.S.) (USD)	-2.9%	-0.4%
MSCI Emerging Markets (USD)	-1.9%	18.2%

Growth/Value (Source: Bloomberg)

	Aug	12-mo.
S&P 500 Citigroup Growth	-4.3%	5.8%
S&P 500 Citigroup Value	-4.7%	4.0%
S&P Midcap 400/Citigroup Growth	-4.5%	13.8%
S&P Midcap 400/Citigroup Value	-5.4%	10.2%
Russell 2000 Growth	-7.3%	7.2%
Russell 2000 Value	-7.5%	6.1%

Eighteen out of the 134 subsectors (13.4%) that comprise the S&P 500 posted a gain in Aug., down from 124 last month. Telecom. Services was the top performing major sector, up 2.3%, according to S&P. In Aug., the dividend-payers (368) in the S&P 500 (equal weight) posted a total return of -4.93%, vs. -4.80% for the non-payers (132), according to S&P. Y-T-D, the payers were down 0.62%, vs. a loss of 3.41% for the non-payers. For the 12-mo. period ended Aug., payers were up 11.37%, vs. a gain of 9.23% for the non-payers. The number of dividend increases year-to-date totaled 165, up from 100 increases a year ago. Two decreased their dividends, down from 61 a year ago. The earnings growth (y-o-y) for the S&P 500 in Q2'10 was 49%, well above the 34% estimate posted in early July, according to Bespoke Investment Group. Financials experienced the biggest jump in earnings at 119.2%. Analysts were looking for 80.8%. Technology had the most accurate estimate versus actual earnings - 53.6% earnings growth vs. an estimate of 52.8%. The AAll Index registered a bullish reading of 20.7% in the last week of August. The percentage of bulls has only been 21% or lower 48 times, according to Sentimentrader.com. The stock market finished higher three months after registering a reading of 21% or below in 47 out of the 48 occurrences.

U.S. Dollar (U.S. Trade-Weighted Basket)  +1.2% (Aug) +3.7% (2010) \$ was down 5.9% in '09	CBOE Total Equity Options (# of contracts in millions)  Aug: 38.5 (-8.1%) Jul: 41.9 (-1.0%) Record 7/08: 67.2 million	Short Interest (NYSE)  Aug 13: 13.75B (0.0%) Jul 15: 13.75B (-5.0%) Record 7/08: 18.61 billion shares	VIX Volatility Index (S&P 500)  26.05 (8/31) 23.50 (7/30) Record 11/20/08: 80.86
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The Bond Market

Index (Source: Barclays)	Aug	12-Mo.	Yield
U.S. Treasury: Intermediate	1.26%	6.84%	1.14%
GNMA 30 Year	0.29%	7.99%	2.42%
Municipal Bond (22+)	3.03%	13.28%	4.58%
U.S. Aggregate	1.29%	9.18%	2.35%
Intermediate Corporate	1.33%	12.08%	3.15%
U.S. Corporate High Yield	0.04%	21.52%	8.46%
Global Aggregate	1.39%	5.84%	2.17%
Global Emerging Markets	1.60%	17.10%	5.39%

The downward revision of Q2 GDP from the initial estimate of 2.4% (annualized) to 1.6% may continue to fuel inflows to fixed-income securities (see below). Despite the soft GDP number corporate earnings remain strong. Standard & Poor's has raised its 2010 earnings estimate for the S&P 500 in recent months from around 36% to 45.9% as of 8/31. It sees earnings growing at a rate of 13.5% in 2011. Strong corporate earnings plus declining defaults are two solid reasons to consider owning speculative-grade debt. The *Distressed Debt Securities* newsletter reported that 46 issuers have defaulted on nearly \$1.7 billion of municipal bonds this year, according to Bloomberg BusinessWeek. The newsletter puts an average year for defaults at about \$1 billion. The amount of municipal bonds outstanding totaled \$2.83 trillion in Q1'10.

Key Rates as of August 31		Key Yield Spread		2010 Debt Issuance through July		
		The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Bond was 615 basis points on 8/31/10, up from 562 on 7/30/10. It was 812 on 8/31/09. (Source: Bloomberg)		(Source: Thomson Reuters)		
		Debt Category	\$ Amount	% change over '09		
Fed Funds	0-0.25%	Treasury	\$1.29 Trillion	+8.7%		
2-Yr. T-Note	0.47%	Corporate	\$510.8 Billion	-4.0%		
10-Yr. T-Bond	2.47%	Convertible	\$19.3 Billion	+6.3%		
30-Yr. Mortgage	4.36%	Asset-Backed	\$72.6 Billion	-29.1%		
Bond Buyer 40	4.86%	Municipal	\$233.3 Billion	+33.8%		
(Source: Bloomberg)						

Equity funds reported net cash outflows totaling \$10.4 billion in 7/10, vs. \$5.6 billion of outflows in 6/10, according to the Investment Company Institute. Bond fund inflows totaled \$30.0 billion, vs. \$20.6 billion of inflows in 6/10. Money Market fund outflows totaled \$6.4 billion, vs. \$24.1 billion of outflows in 6/10. Y-T-D through July, equity funds reported net outflows totaling \$1.7 billion, vs. \$185.6 billion of inflows for bond funds and \$515.6 billion of outflows for MMFs.

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	1049.33	-32.96%	-4.62%	2.07%
S&P 500/Citigroup Growth	917.91	09/01/00	363.99	03/09/09	542.06	-40.95%	-5.89%	1.68%
S&P 500/Citigroup Value	836.19	07/13/07	307.16	03/09/09	499.56	-40.26%	-3.33%	2.46%
S&P 400	926.23	07/13/07	372.88	10/09/02	721.64	-22.09%	0.24%	1.48%
S&P 400/Citigroup Growth	383.70	06/05/08	162.27	10/09/02	316.93	-17.40%	1.43%	0.88%
S&P 400/Citigroup Value	361.18	06/04/07	135.55	10/09/02	258.26	-28.50%	-0.89%	2.08%
S&P 100	829.83	09/01/00	322.13	03/09/09	475.73	-42.67%	-6.07%	2.27%
DJIA	14164.53	10/09/07	6547.05	03/09/09	10014.72	-29.30%	-2.12%	2.75%
NASDAQ 100	4099.30	09/01/00	804.64	10/07/02	1767.43	-56.88%	-4.51%	0.81%
Russell 2000	855.77	07/13/07	327.04	10/09/02	602.06	-29.65%	-2.96%	1.41%
Russell 2000 Growth	455.25	10/10/07	169.69	10/09/02	330.06	-27.50%	-3.44%	0.73%
Russell 2000 Value	1276.63	06/04/07	469.32	03/09/09	834.24	-34.65%	-2.53%	2.09%
Russell 3000	907.58	10/09/07	389.61	03/09/09	617.48	-31.96%	-4.26%	1.95%
MSCI World x U.S. (USD)	5379.90	10/31/07	1636.59	03/12/03	3550.09	-34.01%	-7.23%	N/A
MSCI Emerging Markets (USD)	473.35	10/29/07	75.12	09/21/01	366.43	-22.59%	-0.33%	N/A
Bovespa/Brazil (USD)	44638.24	05/19/08	2160.80	10/16/02	37115.66	-16.85%	-5.82%	3.30%
RTS/Russia (USD)	2487.92	05/19/08	131.02	01/03/01	1421.21	-42.88%	0.55%	1.70%
Bombay SE 500/India (USD)	226.04	01/07/08	16.50	09/21/01	154.85	-31.49%	6.32%	1.18%
Shanghai Composite/China (USD)	810.24	10/16/07	122.21	07/11/05	387.61	-52.16%	-18.06%	1.64%
KOSPI/South Korea (USD)	2.29	10/31/07	0.36	04/04/01	1.45	-36.58%	0.62%	1.39%
Hang Seng (USD)	4082.25	10/30/07	1078.13	04/25/03	2640.19	-35.32%	-4.22%	3.09%
MSCI Euro (USD)	1988.53	10/31/07	598.84	03/12/03	1008.74	-49.27%	-17.19%	3.89%
S&P Consumer Discretionary	318.54	06/04/07	125.72	03/09/09	237.42	-25.47%	2.05%	1.58%
S&P Consumer Staples	306.61	12/10/07	182.72	03/10/03	273.56	-10.78%	1.59%	3.02%
S&P Energy	668.81	05/20/08	163.83	07/23/02	384.14	-42.56%	-9.19%	2.34%
S&P Utilities	223.91	12/10/07	77.27	10/09/02	155.34	-30.62%	1.35%	4.29%
S&P Financials	509.55	02/20/07	81.74	03/06/09	182.27	-64.23%	-5.26%	1.20%
S&P Banks	414.38	02/20/07	49.02	03/05/09	117.87	-71.56%	-5.35%	1.05%
FTSE NAREIT Equity REITs	676.54	02/07/07	163.57	03/06/09	385.36	-43.04%	14.01%	3.55%
S&P Health Care	444.98	12/28/00	252.84	03/05/09	325.08	-26.95%	-8.94%	2.28%
S&P Pharmaceuticals	496.83	12/28/00	214.50	03/03/09	280.73	-43.50%	-6.00%	3.81%
NYSE Arca Biotechnology	1253.57	03/23/10	280.09	07/10/02	1060.72	-15.38%	12.59%	1.46%
S&P Information Technology	882.20	09/01/00	172.88	10/09/02	328.12	-62.81%	-10.87%	1.00%
Philadelphia Semiconductor	1152.98	08/31/00	171.32	11/20/08	307.49	-73.33%	-13.70%	1.36%
S&P Telecom Services	247.23	09/01/00	79.00	09/30/02	112.61	-54.45%	2.48%	5.71%
S&P Industrials	381.16	10/09/07	132.83	03/09/09	243.55	-36.10%	1.73%	2.26%
S&P Materials	285.91	05/16/08	102.55	10/09/02	188.05	-34.23%	-4.72%	2.11%
Philadelphia Gold & Silver	206.37	03/14/08	41.85	11/17/00	185.15	-10.28%	10.62%	0.69%
Reuters/Jefferies CRB	473.52	07/02/08	183.52	10/22/01	264.19	-44.21%	-6.77%	N/A
Merrill Lynch Perpetual Preferred	197.85	05/08/07	51.79	03/09/09	151.10	-23.63%	12.12%	7.23%
Merrill Lynch High Yield Master II	247.38	08/09/10	106.67	10/10/02	246.18	-0.48%	8.48%	8.62%