

Advisor Economic Update January 2011



HAPPY NEW YEAR!!! We start anew and say goodbye to 2010 with significantly higher markets. For December, markets were also higher with the Dow Jones Industrial Average (Dow), Standard & Poor's 500 (S & P 500), and Nasdaq composite were up 6.58% and 6.20% respectively.

Bond yields, as measured by the 10-year Treasury ended December at 3.3% compared to 2.79% at the end of November.

The higher yields translate to lower bond values, which has been the trend since September. There is a high degree of uncertainty related to interest rates, so investors should be aware that certain bond categories (long-term Treasuries, in particular) may be subject to significant volatility as rates and expectations change.

Economic data is mixed. Housing has been in recovery mode for sometime and will probably not see a strong rebound until employment begins to recover. However, consumer spending and consumer confidence have both been strong. At the end of 2009, fear created a conservative environment where individuals and corporations were trying to hold cash. Currently, with higher confidence, personal spending has increased, and this seems to be filtering through to corporate America as we begin to see some job growth. Tax cuts may also contribute to growth for 2011, adding and estimated \$850 billion of stimulus.

We've come a long way from the credit crisis that started in 2007, but we still have a long way to go. The federal stimulus seems to be successful in adding to economic growth, but we are still losing more jobs than we are creating. Ben Bernanke said in early December 2010, that it could take 4-5 years for unemployment to return to "normal" levels of 5-6%.

2011 started off with a "bang" and triple digit gains in Dow, due in part to optimism and increased manufacturing. We are hopeful that gains will continue through at least the first quarter but are also prepared for some hiccups along the way. Many market analysts believe that 2011 will show continued economic and stock market growth.