
Market Update

February 2008 Review

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As expected, market volatility was again the theme during the month of February as investors digested mixed economic data on employment, housing, inflation and manufacturing. Equity markets started February strong as they welcomed Microsoft's bid to takeover Yahoo!, however credit and recessionary fears quickly overcame any positive sentiment as major indices turned lower. Negative economic data was highlighted by a drop in Consumer Confidence from 87.9 in January down to 75.0 as well as the ISM Non-Manufacturing Survey dip to 41.9 from 53.9.

On the positive, Retail Sales for the month of January and the December U.S. Trade deficit reported better than expected results. However, the trade deficit is impacted by currency fluctuations, and as the dollar has continued its slide versus other major currencies, U.S. imports have become more expensive while exports less expensive. To close the month, one U.S. dollar was worth 0.658 Euros.

As oil and other commodities act as a hedge against the dollar, the dollar's slide helped increase the price of oil, with the cost for a barrel closing at \$101.74 at the end of February. Additional news that OPEC does not intend on increasing overall production as well as Brazil's desire to join the cartel, bringing more of the world's supply under the organization, helped to increase prices by over 10% during the month. Together, increasing commodity prices, led by oil, and the weak dollar helped fuel an up tick in inflation readings as both the Consumer Price Index (CPI) and the Producer Price Index (PPI) rose from their expected levels.

To combat the possibility that the U.S. economy may slip into a recession, if it has not already, President Bush signed an economic stimulus package providing tax credits to most Americans as well as some additional business incentives. Under the deal, individuals earning less than \$75,000 would receive a tax credit of \$600 and couples filing jointly earning less than \$150,000 would receive \$1,200. In addition, all couples would also receive a \$300 credit per child. The effects of the stimulus package on the economy could take up to 12 months to be felt, as checks will not be cut until May and consumers may be wary to spend while facing rising food and energy prices.

Following this mixture of economic activity, all three major U.S. indices declined for the month of February. The Dow Jones Industrial Average fell 3.04%, the NASDAQ Composite Index declined 4.95%, and the S&P 500 Index was off 3.48%. Financial Services was the worst performing sector, losing 10.67%, while only Media and Energy gained for the month, increasing 3.85% and 7.51% respectively. Major domestic equity styles were negative across the board. Mid-cap capitalization stocks fared best, losing 1.8% for mid-cap growth and 2.8% for mid-cap value. Large-cap growth shed 2.21% and large-cap value 3.55%, while small-cap growth lost 3.77% and small-cap value down 2.75%.

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International markets had trailed domestic markets year-to-date until the end of the month, however a strong finish pushed monthly returns for the MSCI EAFE Index up by 1.27% and the MSCI EM (Emerging Market) Index up 7.25%. Both indices remain negative on the year. (International market returns are quoted in U.S. Dollar terms.)

Due to the volatility in the equity markets, investors sought safety in high quality fixed income investments, pushing up U.S. Treasuries prices and driving down yields. The short term bond index, Lehman Brother 1-3 Year Government Index, rose 0.94% and the inflation-protected index, Lehman Brothers U.S. Treasury TIPS increased 1.23%. The yield on the U.S. Government 10 Year Bond fell in February to 3.53%.

Over the next month, all market eyes will focus on the Federal Open Market Committee, which is scheduled to meet again on March 18. At this time, the committee will determine any necessary changes to the Fed Funds Rate, currently set at 3.00%. With many uncertainties remaining, we anticipate that market volatility will continue at least over the next few months.

Definitions & Disclosures:

An index is a measure of value changes in a representative grouping of stocks, bonds, or other securities. Indexes are used primarily for comparative performance measurement and as a gauge of movements in financial markets. You can not invest directly in an index and, for comparative purposes, they do not reflect the effect of the various fees inherent in actual investment vehicles.

The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.

Growth Stocks – Stocks characterized by companies expected to have higher than anticipated growth in earnings that will result in higher stock prices.

Value Stocks – Stocks characterized as having prices that are believed to be undervalued relative to their current market price.

The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.

The MSCI Emerging Markets Index (EM) is a free-float-adjusted market-capitalization index developed by Morgan Stanley Capital International. It is designed to measure the equity market performance of 26 emerging market countries.

The Lehman Brothers U.S. Treasury TIPS Index measures the performance of inflation protected securities issued by the U.S. Treasury that are designed to provide investors with inflation protection through adjustments to principal and coupon payments.

The Federal Funds Rate is the interest rate at which banks lend money, usually overnight, to other depository institutions in order that they may meet reserve requirements. It is one of the most sensitive indicators of the direction of overall interest rates.

Market Capitalization – A company's market capitalization is equal to the number of company shares outstanding multiplied by its current stock price. Large-cap stocks are often classified as companies with market capitalizations of more than \$10 billion; Mid-cap stocks between \$2 billion and \$10 billion; and Small-cap stocks with less than \$2 billion.

Consumer Price Index (CPI) – The CPI is a cost of living index, released monthly, published by the U.S. Bureau of Labor Statistics within the Department of Labor. It measures prices of a fixed basket of goods hypothetically bought by a typical consumer. This basket of goods includes food, shelter, utilities, transportation, medical care, clothing, entertainment, and other items.

Producer Price Index (PPI) – The PPI is a wholesale price index, released monthly, published by the U.S. Bureau of Labor Statistics within the Department of Labor. It tracks the prices of oil and gas, metals, lumber, food, and many other commodities. It does not measure the price of services. The PPI is monitored by economists seeking to identify trends delineating upward or downward pressure on wholesale prices, as these price movements are usually passed through to consumer prices over time. Therefore, the PPI can be an accurate precursor to changes in the CPI.