
Market Update

April 2008 Review

Market Update is a monthly publication circulated by USI Advisors, Inc. and is designed to highlight various market and economic information. It is not intended to interpret laws, regulations or to address specific client situations.

This report has been prepared solely for informational purposes, based upon information generally available to the public from sources believed to be reliable, but no representation or warranty is given with respect to its completeness. This report is not designed to be a comprehensive analysis of any topic discussed herein, and should not be relied upon as the only source of information. Additionally, this report is not intended to represent advice or a recommendation of any kind, as it does not consider the specific investment objectives, financial situation and/or particular needs of any individual client.

Securities offered through USI Securities, Inc., Member FINRA/SIPC. Investment Advice provided by USI Advisors, Inc., 95 Glastonbury Blvd., Glastonbury, CT 06033, (860) 652-3239.

After a vicious sell-off in the first quarter, stocks rebounded sharply in April as investors fled the safety of Treasury bonds and focused on attractive stock valuations. The impetus behind April's rally appears to be driven on growing optimism that the worst of the credit crises may be behind us and that the economic environment, although weak, may not be as bad as initially feared. In addition, several industry bellwethers reported solid profit news during the month while the announcement of Mars, Inc. and Berkshire Hathaway agreeing to acquire Wrigley for \$23 billion marked the first significant merger/acquisition activity in 2008. Also fueling investor optimism during the month was the anticipated decision of the Federal Reserve to reduce the target for the federal funds rate by 25 basis points, to 2.00%. The most recent action by the Federal Reserve marked its seventh rate cut since the financial crises began last August. In April, the government reported that the economy grew in the first quarter at an annual inflation-adjusted rate of just 0.6%, the same as in the fourth quarter, the weakest two-quarter performance since the recession of 2001.

Some markets turned in their best month in years. Overall, stocks were up across the board in April with the Dow Jones Industrial Average posting a 4.7% return, the S&P 500 Index rose 4.9%, the Russell 2000 Index advanced 4.2% and the NASDAQ Composite Index returned 5.9%. The strong equity returns were not exclusive to the U.S. market as the MSCI EAFE Index and MSCI Emerging Markets rose 5.4% and 8.1%, respectively. Japan's Nikkei Stock Average rose 11% in April, its best month since 1995 while China rose 6.3% and India and Hong Kong posted 11% and 13% returns, respectively.

Within the fixed income market, mortgage and corporate borrowing costs eased in April but interbanking borrowing rates rose. The gap between yields on corporate bonds and safe Treasuries narrowed in April while Treasury yields moved sharply higher as investors anticipated the end to the Federal Reserve's easing campaign and re-focused on equities and distressed debt. As a result, prices of Treasury bonds were off sharply in April. The Lehman Brothers U.S. Treasury Index declined -1.72%. Non-treasury bonds benefited from spread tightening as the Lehman Brothers Corporate High Yield Index rose 4.31% and the Lehman Brothers Bank Loans Index advanced 4.14%. These current trends are indications that the credit markets are moving forward toward more normal conditions.

Market Update

Although the economy remains under stress, the Fed's actions over the last six months to provide liquidity in the market in addition to tax rebate checks has likely reduced the possibility of a severe recession. Looking ahead, we expect that the Federal Reserve will pause at their June meeting as inflationary pressures continue to build and the dollar continues to weaken. In addition, we believe further turbulence is not completely out of the picture should the woes of the U.S. financial sector spread more broadly. The London Interbank Offered Rate (LIBOR) remains stubbornly high, an indication that banks continue to hoard cash as a contingency.

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.