
Market Update

May 2008 Review

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Following the year's first positive month of market performance in April, markets faced renewed uncertainty during the month of May driven largely by news on the economy and inflation. Major economic indicators added to the confusion during the month, where data pointed negative, but not as bad as expected. The housing market continued to see existing home prices and sales decline, while new home starts were unexpectedly up 8.2%. Manufacturing indexes again indicated mild contraction, while Gross Domestic Product ("GDP") for the first quarter was revised up from 0.6% to 0.9% on the heels of strong U.S. exports. Following another rate decrease at the end of April, the Federal Reserve released its minutes from its latest meeting, indicating that concerns over slowing economic growth had moderated and concerns over inflationary pressures was increasing. By the end of the month, markets were anticipating a better than 50% chance that the Federal Reserve's next action may be to reverse course and raise the Fed Funds rate sometime during the fourth quarter of 2008.

Despite better than expected Consumer Price Index ("CPI") and Producer Price Index ("PPI") readings during the month suggesting only mild inflation within the U.S., inflationary pressures continued to be fueled by the weak U.S. dollar, leading to rising commodity and food prices. Oil prices pushed upwards from \$113.46 at the beginning of the month towards a record \$135 a barrel, before finally retreating to \$127.32 at month's close. Following closely, an average gallon of gasoline rose to a record \$3.94 across the country. Released in the middle of each month, CPI and PPI are lagging indicators, based on the weekly averages of prices in the previous month. Both indexes are expected to rise next month.

Major market indexes were mostly positive for the month. The S&P 500 Index rose 1.01%, the NASDAQ Composite Index gained 4.55% and the Russell 2000 rose 4.48%. On three occasions, the Dow Jones Industrial Average climbed back up to the 13,000 level, only to quickly retreat into the mid 12,000s, finishing down 1.42% for the month. Internationally, the MSCI EAFE Index rose 0.28%. Year-to-date, international markets continue to outpace domestic markets in U.S. Dollar terms; due in large part to the weak dollar at the beginning of the year. A weakening U.S. Dollar may enhance returns for U.S. investors holding international stocks, whereas a strengthening U.S. Dollar may reduce those same returns. This is typically referred to as currency risk.

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In fixed income markets, investors continued to slowly withdraw from treasury markets in favor of corporate debt. Treasury prices declined pushing up government yields as indicated by the 10-Year Treasury yield rising to 4.05% by month's end. For the second consecutive month, the Credit Suisse High Yield Index and Credit Suisse Leveraged Loan Index posted positive returns; 0.38% and 3.31% respectively. Both beat the Lehman Brothers Aggregate Index's return of -0.73.

As markets push forward into the summer months, the major question will be how the consumer responds to the economic slowdown and inflation uptick. In addition, should the Federal Reserve hold rates steady during their June meeting as expected, the U.S. Dollar may advance against developed countries' currencies. Combining a stronger dollar as well as decreasing consumption could contribute to lowering commodity prices, providing some relief for consumers from the high food and energy prices.

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.

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 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.

Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services, and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to measure growth of the U.S. economy.

The Credit Suisse High Yield Index is an index designed by Credit Suisse First Boston (CSFB) to mirror the investable universe of the U.S. dollar denominated high yield debt market.

The Credit Suisse Leveraged Loan Index is an index designed by Credit Suisse First Boston (CSFB) to mirror the investable universe of the U.S. dollar denominated leveraged loan market.

The Russell 2000 Index is a market capitalization weighted index consisting of approximately 2000 small cap U.S. stocks. It is a subset of the larger Russell 3000 Index and is often used as a benchmark for small cap stocks.