USI Advisors, Inc.

Market Update

July 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.

One year since the beginning of the credit crisis, market capitalization of the financial industry remains a shell of its former self. In July 2007, Citigroup, Inc. (C) was trading between $50 and $55 per share, Bank of America Corporation (BAC) in the high $40s, Merrill Lynch & Co., Inc. (MER) in the high $80s, and the doors were open at Bear Stearns. By the middle of July 2008, Citigroup, BofA, and Merrill all lost 60% to 70% of their value from a year ago and Bear Stearns has now been rolled into JP Morgan. In total, the financial sector had been down over 30% in the past year.

On July 15, 2008, the Dow Jones Industrial Average closed at 10,962.54, falling below 11,000 for the first time since August 10, 2006. Rumors that both Freddie Mac and Fannie Mae might fail, testing the implied guaranteed backing of the U.S. Government, compounded on financial woes. Inflationary pressures mounted as oil prices approached $150 a barrel and the average price of gasoline reached above $4.10.

However, momentum shifted slightly from that point led by falling demand from a weaker global economy pushing oil prices down $25, closing the quarter at $124.08. The SEC moved to limit short selling on some of the biggest financial stocks, making it more difficult to enter into a transaction that profited from plummeting stock prices. While second quarter earnings were announced showed continued bank write-downs and losses, they were not as severe as anticipated. In the volatile environment we have come to expect, the doom and gloom economic outlook of the first half of the month suddenly turned into a subdued opportunistic outlook.

That is not to suggest that the U.S. economy is by any means out of the woods. Key economic statistics remain negative as inflationary pressures remain high as measured by both the Consumer Price Index (CPI) and the Producer Price Index (PPI), job losses have pushed the national unemployment rate up to 5.7%, and the 4th quarter 2007 GDP was revised down to -0.2%, indicating contraction during that quarter. However some of these stats are lagging indicators, emphasizing events that have already occurred, not necessarily a sign of the times ahead.

By the end of the month, major equity market indexes were mixed. The Dow Jones Industrial Average was up 0.43%, the Standard & Poor's 500 Index down -0.84% and the Russell Mid Cap Index down -2.54%; while the Russell 2000 Index, measuring small cap stocks, was up 3.70%. As the US Dollar strengthened versus major international currencies, international markets lagged domestic markets. The MSCI EAFE Index fell -3.20% and the emerging markets index, MSCI EM Index, sunk -3.69%.

Just as small cap stocks outpaced large caps, value styles outperformed growth styles. The Russell 1000 Value Index and Russell 2000 Value Index returned -0.36% and 5.13% respectively, while their counterparts, the Russell 1000 Growth Index and the Russell 2000 Growth Index trailed at -1.90% and 2.33%. Major sector market winners were Financials up 6.70%, Healthcare up 5.82% and Consumer Goods up 4.38%. Following the decline in oil prices, the Energy sector was down -14.99%.

USI Advisors, Inc.
www.usicg.com

Fixed Income markets also experienced some losses as credit concerns lingered strong, at least early in the month. Shorter-term government bonds led over longer term and credit focused indexes. In total, the Lehman Brothers US Aggregate Index traded marginally lower, losing -0.08% while the Lehman Brothers Global Aggregate was slightly up 0.14%. The Credit Suisse High Yield Index was also down -2.41%. Also of note, the 10 Year US Treasury settled flat for the month at 3.98%, following a spike to 4.15% by mid month.

The economic outlook for the remainder of the year is still cloudy as much focus is on consumer spending, inflationary pressures, and the upcoming political elections. The only known certainty is that volatility will continue during the upcoming months. However markets are good predictors of the economic future. This was never more clear then late last year as stock valuations slid significantly. Should optimism grow, we would expect capital markets to react favorably. We believe key factors to continue to watch over the remainder of the year are the price of oil, job market reports and corporate earnings, with any of these driving the markets at any point in time.

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 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.

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, and 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, and 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 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.

The Lehman Brothers U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.

The Lehman Brothers Global Aggregate Index covers the most liquid portion of the global investment grade fixed-rate bond market, including government, credit and collateralized securities.

The Russell 1000 Index is a market capitalization weighted index representing approximately 1000 of the largest U.S. equity securities, effectively 92% of the U.S. stock market. It is a subset of the Russell 3000 Index and is often used as a benchmark for large cap stocks.

The Russell Midcap Index is a market capitalization weighted index representing approximately 800 of the smallest securities by market cap found within the Russell 1000 Index, of which it is a subset. It represents approximately 31% of the total market capitalization of the Russell 1000 and is often used as a benchmark for mid cap stocks.

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.

USI Advisors, Inc. ▪ 95 Glastonbury Boulevard ▪ Glastonbury, CT 06033 ▪ (860) 633-5283 ▪ www.usicg.com