
Market Update

August 2008 Review

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August has always been known as the dog days of summer, a relatively quiet month of vacations and pennant races, and a month for the investment markets to gear up for the historically volatile fall months of September and October. While the world heated up with the excitement of the Summer Olympics, the Democratic National Convention, the immense threat of Hurricane Gustav clearing out the entire city of New Orleans and the naming of a relative unknown to the national and international scene (Alaskan Governor Sarah Palin as the Republican Vice Presidential candidate), the capital markets continued to experience daily volatility, yet posted mostly higher results for the month.

Investors continued to digest often conflicting information throughout August, helping to extend the number of days during 2008 in which the Dow Jones Industrial Average had daily swings of 100, 200 and even 300 points. To date, market volatility this year has surpassed that of what was experienced in all of 2007. Driving this volatility continues to be the declining housing market, which has directly effected the financial sector, as well as the increasing possibility of a global economic slowdown. Furthermore, the adjusted consumer spending numbers for July showed a drop of 0.7% (the most in three years) and there was a decline in personal income due to the combination of job losses, the slowing economy and the waning benefits of the economic stimulus package. Conversely, markets also had encouraging news; manufacturing activity improved as durable goods orders increased, consumer sentiment rose, Fed Chairman Bernanke stated his belief that inflation pressures should subside, which in turn helped the dollar to strengthen against foreign currencies, and GDP was revised up to 3.3% from 1.9%, a number much higher than anticipated and stronger than the previous two quarters. With all this as a backdrop, it was not surprising that market volatility continued throughout the month, ending in higher returns for most of the capital markets.

The domestic equity markets ended higher for the month, but remained strongly negative year-to-date for 2008. Large cap domestic stocks were up in August; with the Dow Jones Industrial Average up 1.81%, while the S&P 500 Index increased by 1.45%. Capitalization and style trends for 2008 continued as Mid cap (1.85%) and Small cap (3.61%) stocks outperformed Large caps, while value stocks led their growth counterparts across all capitalizations. Sector performance was mixed with energy stocks ending relatively flat for the month, but experiencing much volatility consistent with the movements of the oil markets, while consumer discretionary and staple stocks were up strongly and financial stocks continuing to struggle during the month. While domestic equities showed positive results in August, international stocks, as measured by the EAFE (Europe, Australia and the Far East) Index, continued to struggle; losing 4.03% during August. The fixed income markets showed some strength for the month with the Lehman Aggregate Bond index up 0.95%.

Where do we go from here? Areas to watch closely continue to be inflation, jobs and the strength of the economy. While Fed Chairman Bernanke believes inflation may calm from its summer peak, and certainly the drop in oil prices has helped in this regard, the gap between the headline Consumer Price Index ("CPI") and the Core CPI (excluding food and energy) was at 2.5%; the largest gap since the first oil crisis in May 1974. The alarming news on the job front that the unemployment rate rose to 5.7%, including

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a 1% decline in the private sector, was somewhat offset by an increase in the real Gross Domestic Product ("GDP"). This fact, combined with rising unemployment and modest wage increases for workers, suggests productivity, as measured by output per hour, sharply increased. From an investor standpoint, these factors may be positive; leading to greater corporate profitability and lower inflation. How will the economy react to all of this? While the credit crisis is still here and the housing market is still under attack, there is a glimmer of hope that both may be subsiding as foreclosures may be close to normalizing due to the bulk of adjustable rate mortgages having already, or will reset over the next 12 months. Still, until there is more certainty in financials, completion of the elections in November, reduced global recessionary fears, and fewer concerns about job security and rising inflation, we are likely to continue to see significant volatility in the markets, with the direction a function of the news of the moment. Stay tuned as we leave the dog days of summer.

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