

Market Update

June 2009 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.

Market Pauses — An Assessment of Fundamentals

The current bull market we have been experiencing since the middle of March stalled in June as investor euphoria was tempered by a barrage of economic data that suggested the possibility of further headwinds to the economic recovery. In our May *Market Update* titled "Proceed with Caution," we commented that the market recovery, from a cyclical perspective, appeared to be driven primarily by news that was "less bad" and that ultimately fundamentals (positive economic and profit growth) would need to catch up with prices. As evidenced in June, the pause we experienced in this rally reflects an investor attitude that requires convincing evidence of an economic recovery for stocks to post further gains. Corporate profits, meanwhile, will need to at least meet forecasts for an upswing through the rest of the year to justify current market values. In other words, corporate earnings will need to deliver.

For the month of June, the Dow Jones Industrial Average ("DJIA") posted a -0.42% return while the tech-heavy NASDAQ Composite Index rose 3.48%. The S&P 500 Index was relatively flat with a 0.20% return for the month and small cap stocks, as reflected by the Russell 2000 Index, rose 1.47%. Returns overseas were off slightly in June with the MSCI EAFE Index down -0.77% and the MSCI Emerging Markets Index falling -1.53%. A similar theme has emerged abroad as investors reconsidered whether gains reflected fundamental economic improvement

	June	YTD
DJIA	-0.4%	-2.0%
S&P 500	0.2%	3.2%
NASDAQ	3.5%	17.0%
MSCI EAFE	-0.8%	5.6%
Barclays Aggregate	0.6%	1.9%
Barclays U.S. Corp. High Yield	6.1%	30.4%

or just a relief that the worst-case scenario had not materialized. While June's results were somewhat muted compared with April and May, stocks posted their best quarter since 2003. The DJIA returned 11.96% for the quarter, the NASDAQ advanced 20.34%, the Russell 2000 Index rose 20.69% and the S&P 500 returned 15.93%. Returns overseas were sharply higher for the quarter as emerging markets led the rally. The MSCI Emerging Markets Index returned 33.57% for the quarter while the developed markets, as measured by MSCI EAFE, rose 23.76% augmented by a weakening U.S. dollar.

In terms of capitalization and styles, small cap stocks bested mid and large cap stocks during the quarter, while value and growth strategies produced similar results. Market leaders resided outside of the defensive sectors and tended to display such characteristics as weak balance sheets and very low valuations – producing a rally that has become classified as the "dash-to-trash." Within the S&P 500 sectors, financials rose 35.08% for the quarter, while information technology and industrials advanced 19.35% and 19.01%, respectively. Commodities had a

Market Update

strong quarter fueled by growth prospects for commodity hungry China and a hedge against inflation, but the rally slowed in June on concerns that commodity prices had risen much too fast.

The theme of “flight-from-quality” that had dominated the fixed income market at the beginning of the quarter cooled slightly in the later half of June. The yield curve steepened in the month of June and throughout the quarter, a sign that investors are concerned about inflationary threats despite efforts by the Federal Reserve to keep them low. In early June, the 10-year Treasury briefly hit 4%, pulling up long-term mortgage rates in the process. However, at month end, the yield on the 10-year fell to 3.5%, still higher than 2.6% at the end of the first quarter. The bellwether Barclays Capital U.S. Aggregate Bond Index rose 0.33% for the month and advanced 1.79% for the quarter. Riskier credits moved higher in June as the Barclays Capital U.S. Corporate High Yield Index advanced 2.86% and returned 23.07% for the quarter. Treasury prices were modestly lower for the month with the Barclays U.S. Treasury Index off -0.21% and shed -3.02% for the quarter. The thawing credit markets have enabled more borrowers to raise cash to fund operations or to refinance debt. Several banks sold bonds without guarantees from the Federal Deposit Insurance Corporation, while roughly \$40 billion in junk bonds were issued in the second quarter, up 81% from a year earlier. The spread in yields between investment-grade debt and Treasuries continued to narrow and have fallen by half since mid-December, an indication that investors are more comfortable holding riskier assets.

As the month and quarter end closed, the question permeating the marketplace has been “has the market run out of steam?” The latter half of June reflected a realization by investors that prices of stocks and riskier fixed income investments have come very far, very fast. Many investors who previously worried about further equity declines or negative fixed income returns didn’t want to miss out on the rally in the markets and re-emerged from the sidelines with a vengeance in the second quarter, pouring cash from money market instruments into equity and riskier fixed income strategies. The coming months will be a test of the resiliency of the market’s recovery. There are signs that emerged in June that the recent rally in equities and riskier fixed income assets could be running out of steam. The focus now is on the market’s economic and profit underpinnings.

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

The Barclays Capital U.S. Corporate High Yield Index covers the U.S. Dollar denominated, non-investment grade, fixed income, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody’s Fitch, and S&P is Ba1/BB+/BB+ or below.

The Barclays Capital Treasury Index represents public obligations of the U.S. Treasury with a remaining maturity of one year or more.