

Market Update

July 2009 Review

A Mid Summer Rally – Stocks Advance Sharply in July

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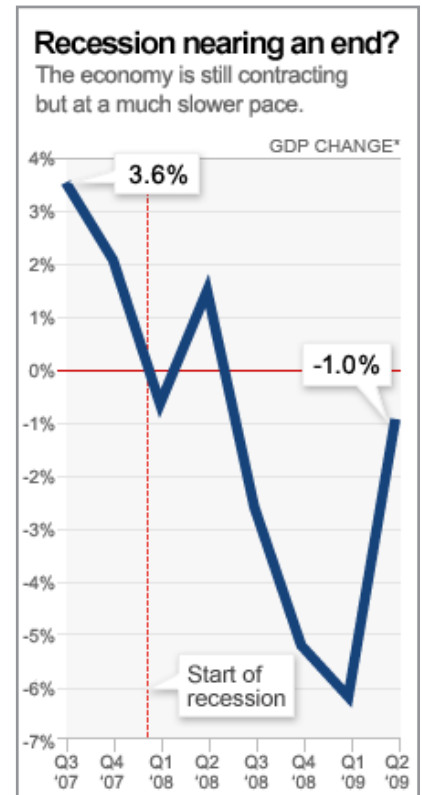
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U.S. and International capital markets posted strong gains in July. Fueling the rally was the large number of companies that beat forecasts; further signs of economic stability and the continued trend of money moving off the sidelines and back into equities and corporate bonds.

With over two-thirds of the S&P 500 having already reported results, profits are currently on track to have fallen 29% versus a year ago. Clearly, profits are still suffering amid the recession, but the results were expected to be worse. At the beginning of the month, analysts were expecting year-over-year results to fall more than 35%. Despite July's rally, investors remain cautiously optimistic. The economy shrank at a slower pace in the second quarter as Gross Domestic Product ("GDP") contracted at a 1% annual rate. While this drop represents the fourth straight quarter of GDP declines, the less-than-forecasted contraction was viewed by the market as an early indicator the economy is stabilizing. However, there's not yet a clear sign we are moving back to growth – in fact, every component of GDP contracted last quarter with the exception of government spending.

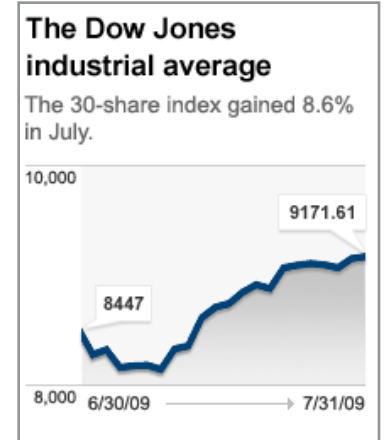
Outside of the GDP numbers, renewed investor optimism continues to impact other areas of the market and economy. Oil prices jumped higher in July and flirted with the 2009 peak of \$73.38 set in June. Optimism that demand could rise with an economic turnaround has helped lift crude prices from below \$33 a barrel in December. The U.S. dollar fell to its lowest level for the year in July, as demand for the safe-haven greenback has waned since the latter part of the first quarter and continues to reflect investors' appetite for risk. In a sign that home buyers appear to be responding to falling prices and the housing slump may be easing, sales of new homes rose at the fastest rate in nearly nine years; greatly exceeding analysts' forecasts. This may be an encouraging sign for an economic recovery as it's felt that in order for the economy to sustain growth, stabilization in the housing market is essential.



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For the month of July, the blue chip Dow Jones Industrial Average (“DJIA”) posted an 8.6% return and is up 6.5% year-to-date. The tech-heavy NASDAQ rose 7.8% and 26.5% year-to-date, while the S&P 500 advanced 7.4% for the month and improved its year-to-date results to 10.9%. Small cap stocks rallied in July as well with the Russell 2000 Index rising 9.5%. Overseas markets advanced 9.0% as reported by the MSCI EAFE Index.

The theme of “flight-from-quality” within the fixed income market picked up steam again in July. Credit markets continued to recover as evidenced by the contracting spread for investment-grade bonds, a relatively low 278 basis points over risk-free Treasuries. Treasury prices rose in the month as the 10-year yield fell to 3.50%. The bellwether Barclays Capital U.S. Aggregate Bond Index rose 1.61% for the month, while riskier credits moved sharply higher in July as the Barclays Capital U.S. Corporate High Yield Index advanced 6.0% and has returned over 38.0% for the year. Credit markets continued to heal as demand for many of the Federal Reserve’s lending programs showed further signs of abating. With the exception of the Fed’s Term-Asset Backed Securities Loan Facility, we would expect a gradual roll down on a number of Fed initiated programs, such as the Commercial Lending Facility, unless the market turns significantly negative again.



While recent data suggests improving conditions, the economic recovery faces many obstacles in the near term. Absent government incentives, consumer spending remains weak as would be expected with low levels of consumer confidence and high levels of unemployment. Private consumption and investment remain weak and unemployment is stubbornly high, thus a rapid, sustained recovery led by the consumer in the traditional sense does not seem likely. As we opined in our June Market Update, for stocks to post significant further gains going forward will require convincing evidence not only that the U.S. economy’s decline has slowed but that growth will begin to turn positive sooner rather than later. Corporate profits will need to generate revenue growth as opposed to simply cutting costs before sustained economic growth can be achieved.

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.

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

The Barclays Capital U.S. Aggregate Index is an unmanaged market value-weighted index for U.S. dollar denominated investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year.

The Barclays Capital U.S. Corporate High Yield Index is a market value-weighted index which covers dollar-denominated, fixed-rate, below-investment-grade debt securities.