

Market Update

August 2009 Review

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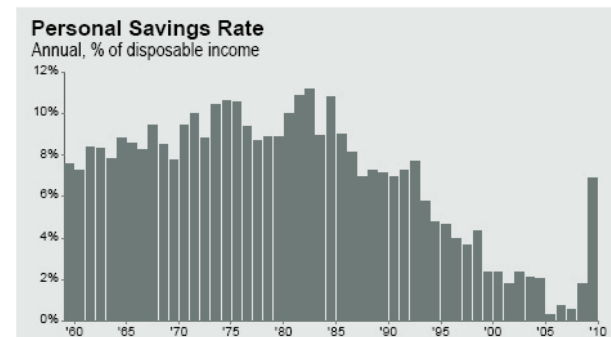
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The importance of the consumer...

According to data from the Bureau of Economic Analysis, personal consumption expenditures have increased over the past several decades from an average 62% of Gross Domestic Product ("GDP") in the 1960s to nearly 70% of GDP in the 2000s; indicating higher pressure on the consumer to drive economic growth. However, with mounting unemployment and nominal wage growth, the consumer has been put under considerable pressure causing concerns about the strength and sustainability of the economic recovery.

In efforts by individuals to rebuild wealth and pay down debt, 2009 has witnessed an increase in the personal savings rate, which, throughout the 1990s and 2000s, had been on a strong decreasing trend (see chart). Although savings are good for the individual and long-term growth of the economy, higher savings rates in the near term will likely result in more modest rates of economic growth versus historical averages.



Source: JPMorgan, Bureau of Economic Analysis

One of the biggest issues weighing on the minds of consumers is the stubbornly high level of unemployment. Although the Department of Labor reported that the unemployment rate actually declined slightly to 9.4% in July, this news is of little comfort for the 14.5 million unemployed workers. Offsetting the unemployment picture was more favorable news in the manufacturing and housing sectors, as well as corporate earnings. Positive trends from these areas continued to stoke investor confidence as both the equity and credit markets gained ground for the month. August was another upbeat month for the capital markets as the Dow Jones Industrial Average ("DJIA") returned 3.97% and the S&P 500 Index gained 3.61%. The tech heavy NASDAQ Composite Index rose 1.67% in August and is up 28.30% year-to-date, reflecting investor's belief that technology will lead the recovery.

Overseas, the MSCI EAFE Index returned 5.16%, while the MSCI Emerging Markets Index lost 0.54% for the month, as weakness in the Chinese equity markets weighed on performance. Emerging markets have been a strong source of returns over the past several months, with the MSCI Emerging Markets Index up over 68% year-to-date. It is important to note that although performance of international markets have also been strong, returns for the U.S. investor in overseas markets have been augmented by the weakening U.S. Dollar.

Fixed income also performed well in August, as the Barclays Aggregate Index gained 1.04% for the month and is up 4.62% year-to-date. The Barclays U.S. Corporate High Yield Index continued its

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strong recovery and is up 40.95% year-to-date, led by the low quality issues that were particularly hit hard during the turbulent markets in the second half of 2008. Broadly speaking, corporate credits have significantly outperformed Treasuries in 2009, as the "flight-from-quality" continued through August. However, returns posted by credits have been on a slowing trend, while returns from Treasuries have stabilized, as spreads have tightened from their historical highs. According to data released by the Investment Company Institute, July represented the 20th consecutive month that investors put more money to work in bond funds than equity funds, another indication of investor uncertainty in both near and long-term growth prospect for stocks.

	Aug	YTD
DJIA	4.0%	10.8%
S&P 500	3.6%	15.0%
NASDAQ	1.7%	28.3%
MSCI EAFE	5.2%	21.1%
Barclays Aggregate	1.0%	4.6%
Barclays U.S. Corp. High Yield	1.9%	41.0%

Although nearly all asset classes have made significant gains since March, those assets that have performed the best are those that are categorized as being more speculative in nature. Some of these asset classes include low-quality high yield bonds, emerging market stock, and leveraged companies holding onto a lot of debt. Essentially, those asset classes which investors fled from last year because of their low quality and high risk characteristics are those that have been this year's champions. A case in point is a comparison of low-quality high yield bonds and Treasuries. In 2008, Treasuries, as measured by the Barclays U.S. Treasury Index, returned 13.73% and low quality high yield bonds, as measured by the Barclays CAA U.S. High Yield Index, dropped 44.35%. Year-to-date, measuring against the same indexes, Treasuries have returned -3.04%, while lower quality junk bonds have skyrocketed 63.34%.

Over the past several months, the rally has been characterized by strong returns from highly speculative companies, not unlike the returns experienced in 2003 following the bursting of the technology bubble. As it now appears that some of the initial enthusiasm for a quick return has passed, it would not be surprising to see a market leadership shift to higher quality, blue chip companies, as investors focus more on fundamentals.

Forward looking in nature, the market anticipates what it believes the economy will do three to six months out. At this point, it appears the market is anticipating positive economic growth by year end, even though current data on the consumer may suggest otherwise. The consumer's role in economic recovery is an important one. The loss of wealth over the past year, fear of high unemployment, lack of wage growth, concerns over the housing market, and tight credit are all weighing on the minds of consumers. As we look ahead to the remainder of 2009, questions over which direction the markets will take will depend on how well or how poorly the markets have discounted expected economic news. With all the issues weighing on consumers, it will be of key interest to see how consumers participate in this year's holiday season given all the financial pressures. This should give us an indication of what to expect from the consumer into 2010.

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

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. 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 CAA U.S. High Yield Index covers the U.S. Dollar denominated, non-investment grade, fixed income, taxable corporate bond market. Securities are classified in this index if the rating of Moody's Fitch, and S&P is CAA.

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