
Market Alert

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Investors' nervousness about the magnitude of the U.S. economic recovery and the vast economic problems overseas was in full display last week and early this week, as significant volatility returned to the capital markets. On Thursday afternoon, the Dow Jones Industrial Average ("DJIA") plummeted nearly 1,000 points only to gain back over 700 points in one of the most volatile 30-minutes in stock market history. Flashbacks to October, 1987 and the 4th quarter of 2008 were widespread, as the Chicago Board Options Exchange Volatility Index ("VIX"), commonly used as a measure of market risk, spiked upwards nearly 140% from its low in mid-April; numbers that have not been seen since early 2009. Investors fled to the safety of Treasuries as equities sold off, reminiscent of 2008, almost entirely erasing the gains established earlier in the year. Although the 30-minute free fall was initially blamed on a trading error and automated program trading, it does not explain the residual instability in the capital markets that has been showcased over the past few trading days. However, it will certainly lead to even more scrutiny from political and regulatory oversight committees, as evidenced from Tuesday's Senate panel questioning of SEC and exchange officials.

Friday was another down day for equities, as the DJIA lost 5.6% for the week, while the S&P 500 Index lost 6.3% and the NASDAQ Composite Index dropped 7.9%. International equities performed even worse, as uncertainty in Europe caused the MSCI EAFE to lose nearly 10% in U.S. dollar terms, reaffirming the fact that the market hates uncertainty.

Volatility continued into the early part of this week, as the pendulum swung the other way. Investors piled back into the stock markets on Monday, with the DJIA rising over 400 points on news of a \$1 trillion European sovereign bailout plan aimed at alleviating the financial crisis in Greece, among other European nations. The question that keeps getting asked is "how could Greece cause such an upheaval in the global capital markets?"

While Greece is just a small part of the euro zone, only representing 2% of the EU economy, there is an underlying fear that other countries may have similar problems, and that contagion would spread. Greece's debt has already reached junk status according to Standard and Poor's and, on May 11th, Moody's indicated that it may downgrade Greece's debt to junk status as well, amid "dismal" economic prospects. Portugal and Spain both saw their debt downgraded by Standard and Poor's last month and indications were that the downgrades may not stop there. Ireland's economy continues to sputter, and Italy has the euro zone's highest debt, after Greece, as a proportion of national output. Even the U.K. is not immune, already receiving some warnings from the major rating agencies. The European Commission said that the U.K. government would borrow 12% of its Gross Domestic Product ("GDP") in 2010, above Greece's and Ireland's respective debt levels of 9.3% and 11.7% of GDP. Clearly, Europe's financial situation is far from stable.

Facing economic calamity, the European Union announced, on May 10th, a \$1 trillion rescue program to support the debt-burdened countries, assuring that the euro would remain intact and countries would have access to loans. But announcing a \$1 trillion rescue package is far easier than implementing such a package. In addition, the conditions established to launch the package brought hundreds of thousands of people to protest their potential loss of government promises; creating more of the uncertainty that investors could do without. The European economic recovery could be slow and still drag down a global rebound. These are the fears of the investment world and these fears were played out in last week's market slide.

Investors had become complacent as the bulls have charged relentlessly onward and upward, as risky assets have staged a massive recovery since the March 2009 market lows. Investors with bullish sentiments have vastly outnumbered those with less optimistic outlooks. As mentioned above, the VIX

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had been trending downward and relatively quiet over the past several months, as low volatility had become the relative norm after a wild 2008 and first quarter of 2009. The massive movements in the market highlight elevated investor apprehension over the magnitude of recovery in the domestic economy, as well as concerns about the recovery in Europe. Whether this becomes yet another mid-market correction, creating buying opportunities, or the beginning of another pullback leading to subdued or even recessionary growth, still needs to be played out in an ever changing economic and political environment.

As always, USI Advisors, Inc. will continue to monitor global economic and market events and will keep you informed of future developments

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 Chicago Board Options Exchange Volatility Index (VIX) shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.