



Personal Wealth Advisory, LLC

Wise strategies for your wealth and your life

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The News You Need to Know

July 2011



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Upcoming Events

Timely Conversations
Workshop

Topic: Long Term Living

Wednesday, September 21,
2011

~Our most popular session
from 2010

~Featuring special guest, Jessica
Pavelko

~Updated with important new
information

Session I

10:00 a.m. to 11:00 a.m.

Session II

7:00 p.m. to 8:00 p.m.

Location: Personal Wealth
Advisory, LLC

To register:

Please contact Pam Snow at
717-735-1170 or
psnow@pwallc.net

Seating is limited, but you are
encouraged to invite a guest.

Mission:

*To help our clients make
wise financial decisions so
they can reach their personal
goals within the framework
of their values.*

THE QUARTER IN BRIEF

For the first time in four quarters, U.S. stocks did not advance. The S&P 500 lost 0.39% in 2Q 2011, a quarter marked by worries over the debt carried by multiple European nations, the wrap-up of the Fed's second installment of quantitative easing, high gas prices and indications that the recovery was stalling. Yet as June ended, encouraging domestic indicators and better headlines from overseas helped to renew the collective appetite for risk.¹

DOMESTIC ECONOMIC HEALTH

Much was made of the "soft patch" the economy had entered into this spring. Some key indicators seemed to confirm it. Consumer spending – which had increased by 0.6% in March – was just +0.3% for April and flat for May. When adjusted for inflation, personal spending actually decreased by 0.1% in both those months. Retail sales were up 0.3% in April, down 0.2% in May. On the other hand, durable goods orders – down 2.7% in April – improved by 1.9% in May.^{3,4}

Unemployment actually increased in the quarter. In March, the jobless rate was at 8.8%; in May, it had climbed back up to 9.1%. By May, annualized inflation had cranked up to 3.6%, and gasoline prices had risen 36.9% in a year. On the bright side, monthly consumer price increases had moderated: after 0.5% gains in the federal government's Consumer Price Index in February and March, prices respectively advanced by just 0.4% and 0.2% in April and May. Wholesale inflation was more pronounced, what with energy costs and supply disruptions in the wake of the March earthquake and tsunami in Japan: producer prices increased by 0.8% in April and 0.2% for May, bringing 12-month wholesale inflation to 7.3% in May compared to 5.8% for March.^{5,6,7}

As for the key American snapshot of the manufacturing and service sectors, the Institute for Supply Management's non-manufacturing index went from 54.6 in May to 53.3 in June; its manufacturing gauge defied expectations, moving north to 55.3 in June from May's 53.5 reading.⁸

In April, citing concern over the ballooning U.S. deficit, Standard & Poor's cut the credit outlook for America from "stable" to "negative". Moody's Investors Service made no such move. The federal debt ceiling was reached on May 16, and Treasury Secretary Timothy Geithner noted a hard deadline of August 2 to raise the debt cap. Congress mostly dithered on the issue during May and June, playing politics first and striving for compromise second. The Federal Reserve's second round of quantitative easing ended June 30 and the impact wasn't as harsh as feared: though the end of QE2 meant the end of \$600 billion thrown at the bond market, bond yields and stock prices actually increased slightly on July 1.^{9,10,11}

GLOBAL ECONOMIC HEALTH

As the quarter ended, Greece seemed poised to stave off a near-term default with \$17 billion more in loans from the International Monetary Fund and the European Union. Greece's parliament passed an austerity bill on June 29 including \$40 billion in tax hikes and budget cuts.¹²

That wasn't the only notable economic development in Europe in the quarter. The European Central Bank raised its key interest rate to 1.25% (and seemed poised to raise it again in early July), making a move before the Bank of England and the Fed. Annualized inflation in the Eurozone was at 2.8% in April; it ticked down to 2.7% by June. Retail sales in the EU slumped by 1.1% in May, and by 2.8% in Germany. On the upside, Germany's manufacturing orders rose by 2.9% in April and 1.8% in May, and German business confidence improved in June.^{13,14,15}

China's official manufacturing index declined in each month of the second quarter, falling to 50.9 by June. Its annualized inflation rate hit 5.5% in June, the highest in 34 months. Elsewhere, there were other signs of a slowdown: India's PMI slipped in both May and June, reaching a low unseen since September. The key PMIs in South Korea and Taiwan also fell, with Taiwan's showing sector contraction. Business sentiment in Japan fell to its lowest level in five quarters in 2Q 2011, an effect of the triple tragedy the nation suffered in March.^{16,17}

WORLD MARKETS

The world's major stock market indices posted widely varying quarterly results. In Europe, Germany's DAX advanced a healthy 4.8%, and Ireland's ISEQ gained 2.7%; England's FTSE 100 managed to gain 0.6%, while the Dow Jones STOXX 600 slipped 1.1%. While the Nikkei 225 actually advanced 0.6% for 2Q 2011, the bulk of important indices in Asia did not (Kospi, -0.3%; Sensex, -3.1%; Hang Seng, -4.8%; All Ordinaries, -4.8%; Shanghai Composite, -5.7%). Brazil's Bovespa went -9.0% for the quarter. The MSCI World and Emerging Markets indices respectively lost 0.28% and 2.11% last quarter.^{18,19,20,21}

COMMODITIES MARKETS

While May and June were trying, the quarterly performances were not all bleak. Reviewing metals on the COMEX, we see that gold gained 4.4% (its eleventh positive quarter in a row) to go +5.7% for the year. Other metals posted quarterly losses (silver, -8.1%; platinum, -3.2%; palladium, -0.9%). The U.S. Dollar Index retreated 2.2% for the quarter.^{22,23}

Moving to energy and crops, oil lost 10.6% in 2Q 2011 for its worst quarter since 4Q 2008 as the International Energy Agency elected to free up global reserves. While several key crops have had a great run over the past 12 months, the quarter was not kind to them: corn lost 10.0%, soybeans slipped 8.2% and wheat lost 20.0%. Rice pulled off a 6.1% quarterly advance.^{24,25}

REAL ESTATE

Instead of a bottom, we got a double dip: in June, the April S&P/Case-Shiller Home Price Index came out and revealed a 4.0% year-over-year decrease in collective house prices across 20 metro areas. As for other barometers, June existing home sales (as measured by the National Association of Realtors) were down 15.3% from a year ago while June new home sales were up 13.5% from a year before.^{26,27,28}

Mortgage rates fell in the quarter. Here were Freddie Mac's Primary Mortgage Market Survey interest rate averages from March 31: 30-year FRMs, 4.86%; 1-year ARMs, 3.26%; 15-year FRMs, 4.09%; 5-year ARMs, 3.70%. The numbers from the June 30 survey: 30-year FRMs, 4.51%; 1-year ARMs, 2.97%; 15-year FRMs, 3.69%; 5-year ARMs, 2.97%.³⁰

LOOKING BACK...LOOKING FORWARD

The mixed 2Q performances of the major indices aren't so bad when you consider the volatility (and swoon) of June.¹

% CHANGE	Y-T-D	2Q CHG	1-YR CHG	10-YR AVG
DJIA	+7.23	+0.77	+27.01	+1.82
NASDAQ	+4.55	-0.27	+31.49	+2.84
S&P 500	+5.01	-0.39	+28.13	+0.79
REAL YIELD	6/30 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.75%	1.15%	2.54%	3.52%

Sources: online.wsj.com, bigcharts.com, treasury.gov, treasurydirect.gov - 6/30/11^{1,30,31,32}
 Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
 These returns do not include dividends.

The new quarter begins with a few questions. Will a QE3 be needed? Will inflation become more of a factor? Will cheaper commodities help U.S. companies? Will Greece require further bailouts or loans before 2011 ends? Are Spain, Italy and Portugal next on the EU/IMF rescue list? How long can world financial markets put up with inaction on the U.S. debt ceiling? And finally, will Wall Street earnings be as impressive as some analysts think? It promises to be an eventful quarter.

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It is not possible to invest directly in an index. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The Irish Stock Exchange (ISE) is Ireland's only stock exchange and has been in existence since 1793. The FTSE 100 Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 18 countries of the European region. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The Korea Composite Stock Price Index or KOSPI is the index of all common stocks traded on the Stock Market Division. BSE Sensex or Bombay Stock Exchange Sensitivity Index is a value-weighted index composed of 30 stocks that started January 1, 1986. The Hang Seng Index is a free-float capitalization-weighted index of selection of companies from the Stock Exchange of Hong Kong. The S&P/ASX All Ordinaries Index represents the 500 largest companies in the Australian equities market. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The Bovespa, the benchmark stock index of Brazil, is the second largest in the Americas, and the leading exchange in Latin America. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The US Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. All economic and performance data is historical and not indicative of future results. Market indices discussed are unmanaged. Investors cannot invest in unmanaged indices. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

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