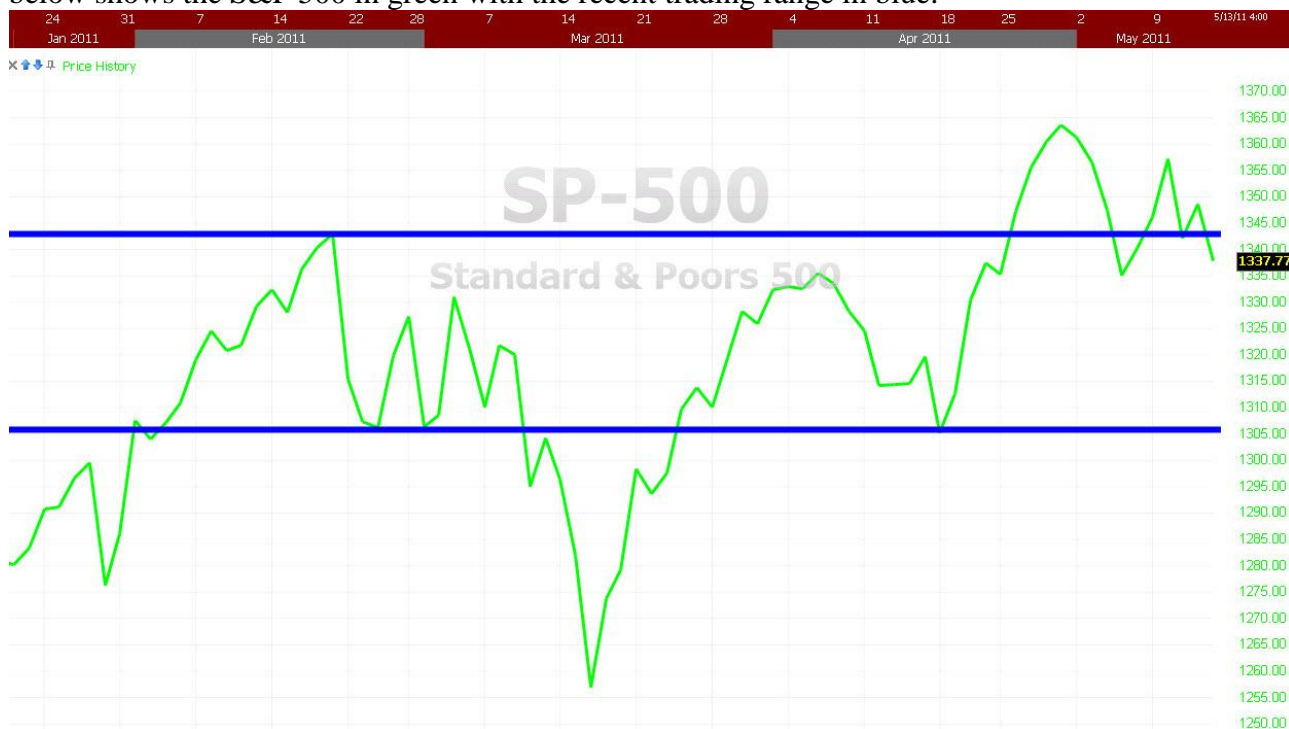




Weekly Market Analysis

May 16th, 2011

Market Wrap-Up: Last week was a pretty uneventful week for the US stock market. Market volume was average and the major averages moved sideways. With the S&P 500 in the upper area of its trading range, many investors had been hopeful that the upward move in the early part of the week might be enough to push the indexes back above their resistance level; and while the move did last for two days it was not enough to offset the decline that occurred later in the week. The chart below shows the S&P 500 in green with the recent trading range in blue:



As you can see from the chart, the S&P 500 has clearly now moved back into the trading range after breaking above and staying above for several days for the second time in the past month. Barring some unforeseen shock to the US and/or world economy, it is likely that the world markets will stay range bound as there are a very limited number of items that could continue to push the markets higher. At the same time, there are a limited number of items that could push the markets below their current trading range. In this type of market environment it is prudent to invest in securities that are producing current income, while at the same time experiencing less volatility than the overall market. At Financially Speaking, we continue to hold our positions as they have performed well in the recent volatility, when looked at in aggregate.

International Politics: International politics continue to focus on the Euro zone and what needs to be done to stop a large scale default from occurring in Greece and several other countries. Adding to the issues for the region, the head of the International Monetary Fund (IMF), Dominique Strauss-

Kahn (also thought to be a head contender to challenge French President Sarkozy in the 2012 French elections), was arrested over the weekend in New York City on accusations that he sexually assaulted a maid in his \$3,000 per night hotel room. This is certainly not the type of publicity that the IMF currently needs, as they are in the last stages of negotiations among themselves, foreign finance ministers from the Euro zone and Greece officials as to how to handle the Greek situation, negotiations that Dominique Strauss-Kahn had presided over prior to his arrest. While the IMF immediately moved their number two person, John Lipsky, into the acting director's position it is unclear how long that appointment will last since Mr. Lipsky announced not too long ago that he would be resigning from his post at the end of August. In general, the world financial markets do not enjoy surprises and with this surprise coming at such a critical time to the Euro zone, it is very unlikely to incite a positive reaction from the markets. Elsewhere in international politics, Syria continues to heat up as the protests against President Bashar al-Assad continue and the violent crackdown against protestors escalates. While foreign powers have been stepping cautiously into the situation it does not appear that anyone will get as involved in Syria as they have in Libya, in part because Syria does not produce enough oil for the world market to make it a major player. The big question for the world financial markets is how involved Iran will get in the Syrian situation and if they do choose to get heavily involved what the world's collective response should be. As soon as Iran becomes a talking point in the situation, oil will potentially start to increase in price as Iran borders on very important international shipping lanes for Middle Eastern oil, shipping lanes that could easily be disrupted by Iran should they want to cause a commotion. Wrapping up the international political news last week is the news announced on Thursday that China is once again increasing the reserve requirements for banks in a further attempt to stem the loose money that is currently in their economy. This announcement comes just two days after Chinese officials announced that consumer prices increased 5.3 percent when compared to one year ago. This level of inflation is much higher than the targeted rate of 4 percent, thus China decided to raise the reserve requirement, which is now at 21 percent, to see if they can slow inflation.

National Politics: The main event last week in national politics was the testimony of Federal Reserve Chairman Ben Bernanke before the Senate Banking Committee about the implementation of the Dodd-Frank legislation. Chairman Bernanke testified along with FDIC Chairwoman Sheila Bair, SEC Chairwoman Mary Schapiro, CFCT Chairman Gary Gensler and Deputy Treasury Secretary Neal Wolin. While the majority of the session was spent talking about the forthcoming regulations that the Federal Reserve is expected to release later this summer, there were a few off topic remarks about the US debt ceiling. The off topic remarks were very well timed since today, some time mid-morning east coast time, is the day that the US will officially hit the debt ceiling of \$14.3 trillion. Treasury Secretary Geithner made the announcement in a letter to members of congress that the US government has stopped the issuance of debt and that the US department of treasury is taking "extraordinary measures" to keep the government debt in good order. While the moves to temporarily stop an outright default on US debt is seen by many to be necessary and stand a good chance of working in the short term, it really only buys the US a little time as the Treasury department can only keep things on life support until August 2nd, at which time if nothing has been done the US will be in default on its loans. The plan until August 2nd included things like the Treasury department not making investments in the Civil Service Retirement and Disability Fund and the Government Securities fund of the Federal Employees Retirement System in order to come up with the cash to keep the system running; the money will be put into the programs with the first issuance of new debt once the ceiling has been lifted. With the figure having been hit and the countdown timer started it will be very interesting to see what the members of congress and the White House come up with for rectifying the situation. So far both sides seem very far apart on

what needs to happen in order to pass legislation to raise the debt ceiling. Compounding the debt ceiling issue is the fact that both sides of the aisle are tying in all sorts of things into the debate, everything from the healthcare reform, to the 2012 budget and the long term outlook for entitlement programs such as Social Security and Medicare. Right now the leading contending plans include the Conrad plan on the Democratic side and the Ryan plan on the Republican side. The Conrad plan cuts approximately \$4 trillion in spending over the next decade while the Ryan plan cuts \$5.8 trillion over the same timeframe but as with most plans the figures in both of the plans use very long term projections that are highly unrealistic. While the stock market reaction to the news on Monday is already built in the US is now set up very well for a surprise cut in our sovereign debt rating as we have already been warned that we are on credit watch by the major rating agencies. The market does not seem to be taking this possibility as likely to happen so if it does it could lead to a very bad day for US stocks. Elsewhere in the US the unusually high flooding by the Mississippi river is making headlines as measures are being taken in an attempt to divert water from hitting Baton Rouge and New Orleans. The flooding has been having an impact on the commodities market as many US crops have been wiped out along the river's path and there are numerous oil refineries still down river that could be impacted by flooding. With oil refineries potentially having to go offline if the flood waters raise high enough, the market is left with a lot of uncertainty about the effect on consumer spending should fuel costs rise as supply is temporarily constrained.

Market Statistics: Last week was a mixed week for the three major US stock market averages with the technology heavy NASDAQ having the top performance of the week after having gained 0.03 percent. The second best performance was the S&P 500 which lost 0.18 percent and the worst performing index of the week last week was the primarily blue chip Dow, which declined by 0.34 percent. The best-performing sector of the US markets, not surprisingly with the NASDAQ being the top performing index, was the GSTI Software Index which increased 2.57 percent. The worst-performing sector of the US market was the Global Materials sector, which declined by 2.91 percent. Commodities turned in a bit of a rebound week as they broadly advanced and made back some of what was lost two weeks ago in the large selloff. Overall, commodities increased by 1.39 percent led higher by a 2.21 percent increase in the price of oil. Gold increased by 0.23 percent and silver continued it's slide declining by 0.26, while the more industrially used Copper advanced 0.92 percent. After the slight rebound last week it will be very interesting to see this week if the world's appetite for commodities advances further or if there is a general waning of demand around the world. The US dollar increased in value by 1.21 percent against a basket of international currencies for the second week in a row, as uncertainty about the Euro zone predominated throughout the currency market. On the international investing front, the best return for last week was found in Sweden, with the OMX Stockholm 30 Index increasing by 0.75 percent. Globally, the worst-performing index was in Japan, with the Nikkei Index decreasing by 2.13 percent. The VIX had a very busy week last week but after making many sharp moves ended down 7.23 percent for the week. Despite the downward move on the VIX we are still well above the low point for 2011 which was reached at the end of March, indicating that there is a good amount of risk being priced into the market for the next 30 days.

For the trading week ending on 5/13/11, returns in FSI's models were as follows:

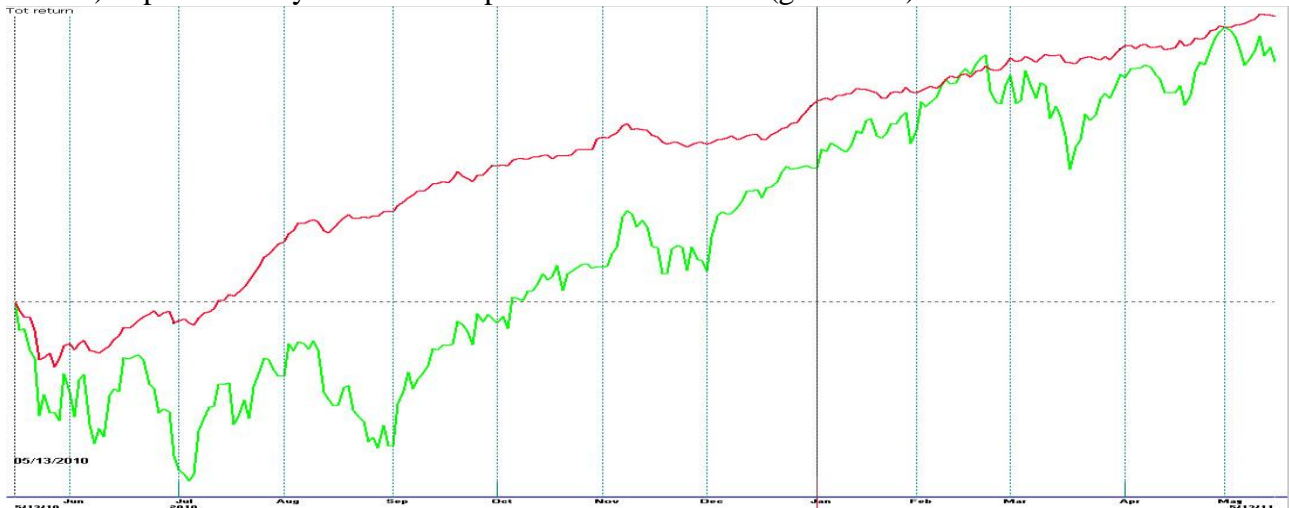
	<u>Last Week</u>	<u>YTD</u>	<u>Since 12/31/07</u>
Aggressive Model	0.10 %	-2.65 %	-3.42 %
Growth Model	0.06 %	-2.35 %	-0.91 %
Moderate Model	-0.03 %	-1.52 %	2.70 %
Income Model	-0.21 %	0.45 %	(Insufficient Data)
S&P 500 (benchmark)	-0.18 %	6.37 %	-8.89 %

We made one small adjustment late in the week last week to our position in commodities. The adjustment was made in order to lower ongoing volatility, since the single fund was driving a large portion of our overall volatility.

Fund Spotlight: This week's fund spotlight focuses on the Forward Select Income Fund (KIFAX). KIFAX is a mutual fund that focuses its investments on income producing securities that are primarily in the real estate market. Through investing in Real Estate Investment Trusts (REITs) the fund gains access to various parts of the real estate market such as apartment, factory-outlet, health-care, hotel, industrial, mortgage, office, and shopping center REITs. The fund is fairly active in moving around the real estate sector to take advantage of market opportunities. The current trailing twelve month yield on the fund is 8.35 percent and a dividend is paid out on a quarterly basis. The underlying holdings break down as follows according to market capitalization as of 3/31/2011:

Large Cap 20.61%
 Medium Cap 33.75%
 Small Cap 10.83%
 Micro Cap 34.81%

The one year performance of KIFAX (red line) below shows the strong investment return (18.54 percent during the past one year) while at the same time illustrating the lower volatility (chopping around) experienced by the fund compared to the S&P 500 (green line):



Economic News: Last week was a fairly slow week for economic news releases with the majority of the releases seeming to indicate that the US recovery has hit a bit of a flat spot. The week started out on Tuesday with the release of both import and export prices for the month of April, both of which increased but did so at a slower pace than was initially expected by the market. Later in the day, on Tuesday, the wholesale inventories figure for the month of March was released with business inventories increasing by 1.1 percent during the month, in line with market expectations after the better than expected factory orders figure that was released two weeks ago. On Wednesday, May 11th, the US trade balance for the month of March was shown to be -\$48.2 billion, slightly more than expected, with the difference between the release and the expected number being blamed on the movement of the US dollar. Later in the day, on Wednesday, the one and only Treasury Budget that can really have an impact on the overall market was released, the budget that shows tax receipts from the previous year. This year's April Treasury Budget came in at -\$40.5 billion much better than March's reading of -\$188.2 billion and better than April of 2010's reading of -\$82.7 billion. Tax receipts were better than expected during the month and higher than in 2010, coming in at \$155.6 billion during the month. While corporate income tax receipts came to a whopping \$25.1 billion for the month, most corporations are not on the same schedule as personal income taxes. On Thursday, May 12th, initial jobless claims came in higher than expected at 434,000 but lower than the previous week's level of 478,000 while continuing jobless claims came in at 3,756,000 higher than both the expected figure and the previous week's number, leading the market to take both of these releases as negative for the employment picture in the US. Following the release of the weekly jobs related information the Producer Price Index (PPI) for the month of April was released to show an increase of 0.8 percent higher than the expected 0.5 percent and the previous 0.6 percent. Although this 0.8 percent increase was not enough to set off inflation alarms it is enough that the Federal Reserve will be watching for other signs of inflation very closely in the coming weeks and months. At the same time as the PPI was released retail sales were shown to have increased at a slower pace than first expected during the month of April a sign potentially of fuel prices finally catching up with the US consumer. Rounding out the day on Thursday was the release of business inventories for the month of March which were shown to be in line with market expectations and mostly ignored in favor of other releases of the day. On Friday, the Consumer Price Index (CPI) for the month of April was released and much to the relief of the US economy prices increased by only 0.4 percent exactly in line with expectations, but with producer prices increases it is only a matter of time before they pass the increases along to the consumer. Wrapping up the week on Friday was the release of the University of Michigan Consumer Sentiment Index for the month of April which came in surprisingly strong at 72.4 while the market had been expecting only 69.5 and the previous reading was 69.8; this was taken as a good sign for the US economy and a sign that fuel prices were not deterring the consumer sentiment by much if any so far.

This week is a very slow week for economic news releases with the bulk of the releases being non-market moving releases. The week starts off on Monday with the release of the Empire Manufacturing Index for May which is expected to have declined a little from the April level of 21.7, but not enough to cause need for concern. Later in the day, on Monday, the NAHB Housing Market Index is set to be released with expectations of no change over the April level, adding fuel to the thought that the US housing market has stabilized and is currently moving in a horizontal direction. On Tuesday, May 17th, more housing related figures are set to be released through being Housing starts and building permits for the month of April, both of which are expected to be lower than March levels due to inclement weather that adversely affected a large portion of the US during the month. Later in the day on Tuesday Industrial Production and Capacity Utilization both for the month of April are set to be released with expectations of little change over the previous month. On

Wednesday, the main thing that the market will be watching is the release of the FOMC meeting minutes from the previous meeting. In particular, the market will be looking for any changes in the arguments amongst members as to how they should move forward with Fed policy. Also released on Wednesday is the weekly crude oil inventory figure, which is typically not something that gets a lot of press, however, if the figure is far enough away from the expected value it could make some news and have an impact on the market. Wrapping up the week on Thursday is the release of the standard weekly job related figures both initial and continuing unemployment claims with both expected to be lower than last week's reading, leaving them ripe to disappoint the market. Later in the day, on Thursday, existing home sales for the month of April are set to be released with expectations of 5.23 million homes being sold during the month, which is average. Wrapping up the week, on Thursday, is the release of the Philadelphia Federal Reserve Index for the month of May, and it is likely to be lower than the market expectations of 18.0 as other areas around the country have hit a bit of a slowdown. Overall it is a pretty uneventful week for economic news releases, but we do have Federal Chairman Ben Bernanke speaking on Monday, as well as the Presidents of the St. Louis Federal Reserve and the New York Federal Reserve making speeches throughout the week, so it could keep things interesting if they say something that has not already been stated by the Fed.

Have a great week,
Peter Johnson

Feel free to forward this email.

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