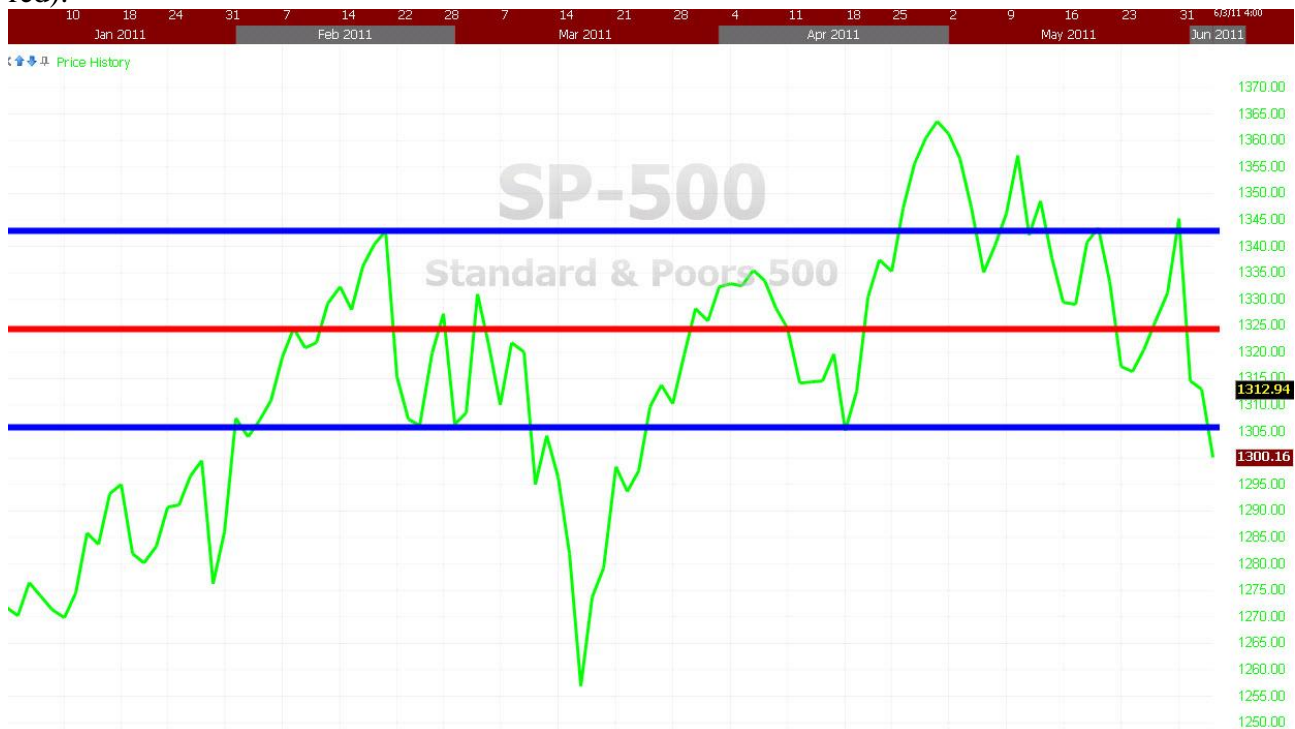




Weekly Market Analysis

June 6th, 2011

Market Wrap-Up: Compared to the lack of enthusiasm we have seen in the market for the last few months, last week was a bit more active, albeit to the downside. All of the signals that came through in the data in the past few weeks seemed to hit the market suddenly last week as investors digested further negative economic data and decided that moving toward safety was a prudent course of action. The selloff was led by the recently high flying technology sector, but there were no sectors of the market that seemed to be spared. US government debt was one of the locations that money moved to in large quantities, as we saw the 10 year government bonds dip to a yield below 3 percent (it hit 2.95 percent intraday) for the first time in a very long time. With the outlooks for inflation and such low yields, the effective interest rate on these investments is probably negative, but many investors still purchased the bonds. This gives a very insightful look at just how pessimistic some investors are toward the equity markets of the next 10 years. From a technical trading standpoint, the S&P 500 has broken its trading range to the downside, as indicated in the chart below (S&P 500 is the green line with the recent trading range in blue and the middle line in red):



One positive aspect to the lower movements by the market is that it occurred on the same light volume that we have seen for the past few weeks, which is an indication that large institutional investors have yet to participate in selling securities in mass. Since the market has broken through its lower support level, we are now watching the next support level to see if it, too, will be taken

out. The next support level is around 1,290 on the S&P 500, which is relatively close. After that the next major level is a bit further away, represented by the low point back in March of 1,257.

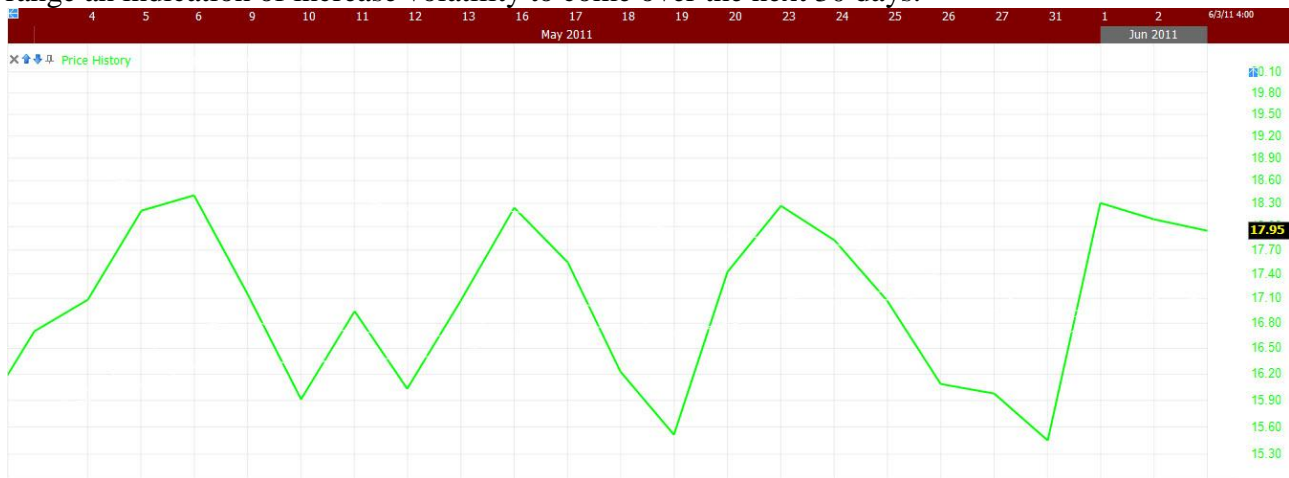
International Politics: Greece continued to make news last week as there are now increased hopes for some kind of economic negotiations between Greece, the IMF and the EU to keep Greece from outright default. One of the main ideas right now is to allow an extension of the term of the debt offering, in a sense allowing Greece a longer time to pay back the loans and, thus, making the payments lower. This idea comes on the heels of Moody's once again downgrading the sovereign debt rating of the country three notches from B1 to Caa1 and saying that they see a fifty-fifty chance of an outright default by the country before the economic situation is fixed. Moody's also left the outlook for the sovereign debt rating of the country at negative, meaning that yet another downgrade has a strong chance of coming in the future.

In the Middle East, Yemen is now without its sitting President as he has handed power to the vice president and was taken to Saudi Arabia for surgery after being injured in an attack on his compound. While the protests to remove him from power have been unsuccessful thus far, there are some people questioning whether he will return to power after recovering from surgery. We will likely see the biggest impact of any new regime, if there is one in Yemen, in the oil market—not because of oil output but because of their proximity to Saudi Arabia. Increased terrorist attacks that originate in Yemen and are aimed at US friendly countries in the region such as Saudi Arabia could have a large impact on the price of oil throughout the world. Syria remains an issue as unrest continues to spread around the country and President Assad continues to crack down in an attempt to remain in power. Elsewhere in the world, China made headlines as it now looks like their economy may be slowing down finally as a result of the government interventions of the past few months. While slowing down the Chinese economy was the intent of the government actions, many investors are now wondering if the world economy was going to slow down naturally and the actions taken by China were unneeded, or if demand for Chinese goods will be lower, at least temporarily in the near-term.

National Politics: The main focus of national politics last week was the continued debate about the national debt ceiling. Republicans in the House took an interesting step last week in calling for a vote to increase the debt ceiling by \$2.4 trillion to \$16.7 trillion. The vote failed by a count of 318 to 97 with all Republicans and many Democrats voting against it, with even the writer of the bill voting against his own bill. The whole vote was done just to send a message to President Obama that the debt ceiling debate will be a tough fight, and a fight that has to end by August 2nd. August 2nd is the date Treasury Secretary Geithner set as the day that the Treasury will no longer be able to fund the US government and keep it from default. On top of the debt ceiling, the national Presidential election coming up in 2012 continues to heat up as more Republicans jump into the race and some of the more popular candidates remain on the fence about whether or not they should run.

Market Statistics: Last week the three major US stock market averages were all down in excess of two percent, with the technology based NASDAQ having the top performance of the week after having lost 2.29 percent. Part of the reason for the NASDAQ's strong relative performance was hype surrounding several new technology IPOs. Both the S&P 500 and the Dow turned in almost identical performances with the S&P declining by 2.32 percent and the Dow declining 2.33 percent. The S&P 500 and the Dow have now declined 5 weeks in a row for a cumulative decline of 4.65 percent for the S&P 500 and 5.15 percent for the Dow. The NASDAQ has declined in four of the

last five weeks, posting a cumulative decline of 4.90 percent. The best-performing sector of the markets was the Global Utilities Sector, which decreased 0.58 percent. The worst-performing sector of the US market was the Regional banking sector, which declined 4.20 percent. Commodities moved higher for the week, increasing by 0.25 percent as Gold turned in the top performance of the week increasing by 0.35 percent. The more industrially used Copper and Silver both fell during the course of the week, with Copper declining 3.14 percent and Silver sliding 4.56 percent. The overall energy sector declined 1.42 percent with Light Sweet Crude Oil moving lower 0.37 percent. The US dollar declined 1.63 percent against a basket of international currencies as large institutional investors appeared to be moving money from US dollars back to Euros on the idea that Greece will be saved from default. On the international investing front, the best return for last week was found in Taiwan, with the Taiwan Weighted Index increasing by 2.68 percent. Globally, the worst-performing index was US Dow, excluding US indexes the worst performance of the week was found in Mexico with the main Mexican index declining by 2.25 percent. After declining two weeks ago by 8 percent, the VIX made a bit of a comeback this week, advancing 12.33 percent. As you can see from the chart below, the VIX is now trading at the upper edge of its near-term trading range an indication of increase volatility to come over the next 30 days.

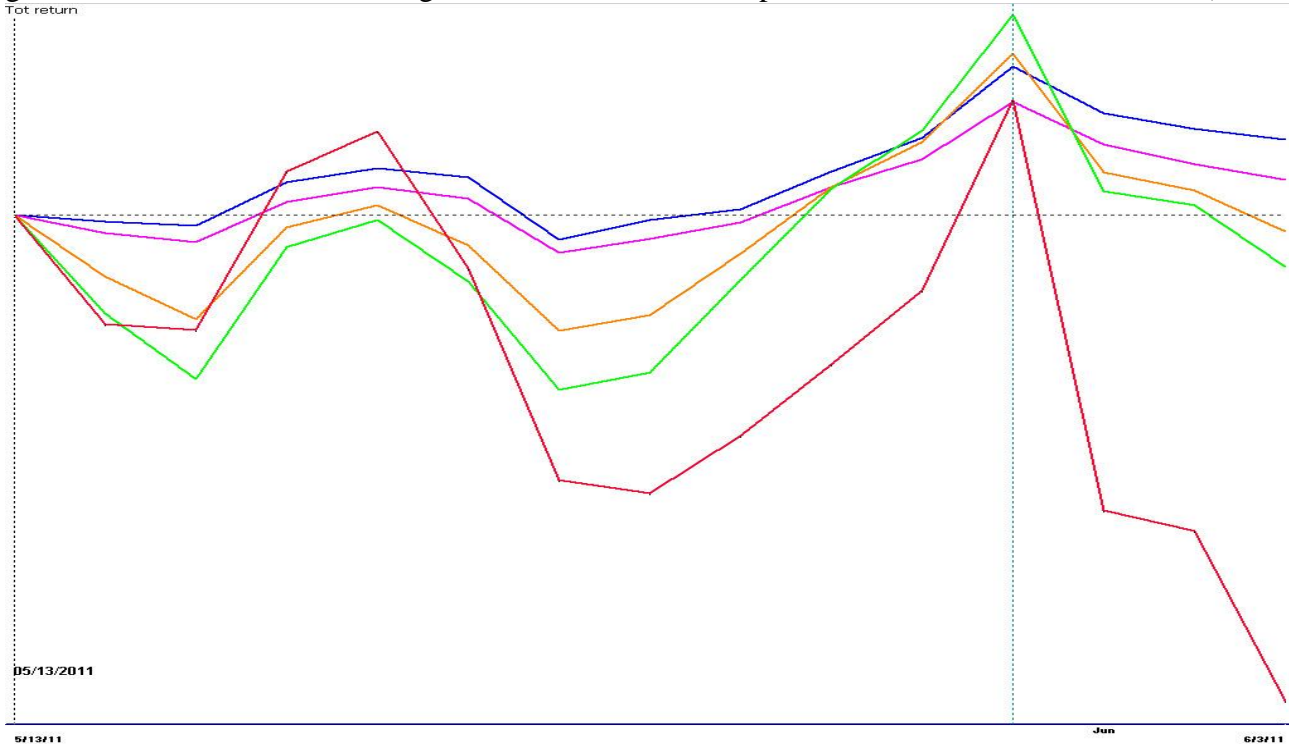


For the short trading week ending on 6/3/11, returns in FSI’s models were as follows:

	<u>Last Week</u>	<u>Past Two Weeks</u>	<u>YTD</u>	<u>Since 12/31/07</u>
Aggressive Model	-0.76 %	-0.29 %	-2.93 %	-3.70 %
Growth Model	-0.50%	-0.09 %	-2.44 %	-1.01 %
Moderate Model	-0.11 %	0.20 %	-1.33 %	2.90 %
Income Model	-0.01 %	0.42 %	0.87 %	(Insufficient Data)
S&P 500 (benchmark)	-2.32 %	-2.81 %	3.38 %	-11.45 %

We made no changes to our models over the course of last week. In light of the recent downturn and volatility in the US stock markets, I have received a number of questions asking how the new models have been performing and if they have been acting as expected. Added this week to the matrix of performance above is a two week column, during which the short term downturn seems to have been the highest and volatility has risen for the S&P 500. In relative terms, the models are performing exactly as they should in a downward moving market, with accounts in the most aggressive models bearing the most risk (approximately one tenth of the draw down of the S&P 500) while accounts in both moderate and income have experienced very little draw down and are

up over the two week time period. While the new allocation models have remained full invested during this period of uncertainty, there is a bit of a safety net under the models that would signal for us to move the entire model to cash, if the signal were given. While we are quite far away from that signal (it has only been triggered five times since 2007), investors should be aware of its presence and ability to limit downside risk. If you have any questions about which model you are invested in, please call our office so we can go over your holdings. Below is a performance chart of our models over the last two weeks to illustrate the lowered volatility (S&P 500 - red line; Aggressive model - green line; Growth model - orange line; Moderate model - pink line; Income model - blue line):



Economic News: The economic news that was released last week was overwhelmingly negative and particularly so for both US manufacturing and employment. The shortened trading week started on Tuesday with a weak release of the Case-Shiller 20 city home-price index for the month of March. While a weak number was expected, the release missed market expectations and cast a very negative light on the US housing sector. Later on Tuesday, the Chicago PMI for the month of May was released and came in much lower than expected, indicating that previous reports of regional slowdowns in other parts of the country can now be seen more broadly across the US. Wrapping up the news releases on Tuesday was the Consumer Confidence Index for the month of May, which also took a bit of an unexpected dip, and was blamed in large part on the increased cost of fuel but probably also had to do with expectations of a slowing economy. On Wednesday June 1st, the ADP Employment change figure for the month of May was released and gave the market the first indication that the employment figures later in the week would potentially be poor. The ADP Employment change figure came in at 38,000 new jobs created during the month. This was a far cry from the market expectations of 170,000 jobs and led to the market declining broadly and investors preparing for bad numbers to be released later in the week. Released later on Wednesday, the ISM Index for the month of May showed an unexpected decline but, after the very negative news out of Chicago the day before, this release had very little impact on the broad market. Construction spending was a positive surprise as it was released to show an increase of 0.4 percent on spending

during the month of April, compared to an expected decline of 0.5 percent. This release was one of a scarce few positive releases last week. Wrapping up Wednesday, the release of auto sales for the month of May came in lower than expected, dropping by 3.7 percent when compared to a year ago. On Thursday, we continued to see negative economic news releases pertaining to employment as both initial and continuing jobless claims came in higher than expected. Initial jobless claims came in at 422,000 the previous week while continuing claims were 3,711,000. For every day Americans to think that the employment picture is getting better we need to see a sustained period of less than 400,000 new initial jobless claims per week for several months. Also released on Thursday was the revised Productivity figure of the US during the first quarter of 2011, which held an unexpected revision upward from 1.6 percent up to 1.8 percent. Later on Thursday, Factory Orders were released for the month of April and, as expected, they turned negative, declining by 1.2 percent compared to March's expansion of 3.8 percent. Friday was all about employment figures with the government releasing their official unemployment rate for the US for the month of May along with both nonfarm payrolls and nonfarm private payrolls. As predicted earlier in the week by the ADP numbers, the unemployment rate in the US crept upward by one tenth of a percent to 9.1 percent during the month of May. While the increase is certainly unwanted, it was not as large as some economist had predicted after the poor ADP figures and only had a muted impact on the market. The more impactful figure on Friday was the nonfarm payroll data, which showed a gain of 54,000 jobs while the market expected 169,000 jobs. This was a major miss on the part of expectations for a release that is typically pretty close to expectations. Nonfarm private payrolls were not much better, coming in at 83,000, while expectations had been for 180,000. The employment data seems to suggest an economy that is expanding with job creations but is doing so at a very slow pace. Wrapping up the week on Friday was the release of the ISM Service Index for the month of May with the release showing a surprise move upward to 54.6 from 52.8. The ISM Services move beat market expectations of 53.3, but it was not enough to overcome the poor employment-related data of the day. Overall, the economic news released last week was negative but it did not signal that a double dip recession is eminent, it seemed to signal more that the US economy got somewhat ahead of itself in the recovery and that we are moving into a bit of a stall; economies, just like the stock markets, go through cycles, and we now seem to be heading into a transition period.

This week is much slower for economic news releases. The week kicks off on Tuesday with the release of Consumer Credit for the month of April, which is expected to have expanded by \$6 billion. On Wednesday June 8th, the Fed releases their Beige Book for the month of June; there is not expected to be any major revelations in the release but it will be interesting to see if they have any comments about the state of US manufacturing and if they see it as an ongoing trend and problem or if it is "transitory," much like the higher commodity prices according to the Fed. On Thursday, the standard weekly employment figures are released with expectations of an increase in initial jobless claims of 1,000 jobs, while continuing jobless claims are expected to have declined 23,000 down to 3,688,000. If the initial jobless claims release surprised us by showing a move to less than 400,000, it would go a long way to adding to some market confidence, but that is highly unlikely. Also released on Thursday are the balance of trade for the US during the month of April and wholesale inventories. The balance of Trade for the US is expected to be only slightly higher than the previous month's reading of -\$48.2 billion and should not impact the overall market. Wholesale inventories are also not expected to have changed very much over the March level and should be equally un-impactful on the overall market. Wrapping up the week on Friday are the release of both export and import prices and the Treasury Budget for the month of May. Import and export prices are not expected to have increased much during the month, which is positive because it signals that inflation is remaining under control. The Treasury budget, however, may have

increased a bit during the month of May because they had to step in and fund the government since we hit the debt ceiling and are unable to issue debt. Overall, this week should be much more positive in the economic news releases than last, leaving the market to watch and react to headlines for market direction.

Have a great week,
Peter Johnson

Feel free to forward this email.

Financially Speaking, Inc
5889 Greenwood Plaza Blvd., Suite 400
Greenwood Village, CO 80111
Telephone 303.290.0702
Toll Free 800.228.9876
Fax 303.290.6581

In addition to our Financially Speaking weekly commentary, emailed on Mondays, we post the commentary on our blog, which you can find by clicking the following link:

<http://financiallyspeakinginc.wordpress.com/>

If you would like to unsubscribe to this weekly commentary, please send an e-mail to Judy at jrborsheim@financiallyspeakinginc.com and you will be removed from our mailing list.