PACIFIC GLOBAL
Investment Management Company

Weekly Recap

October 14, 2011

Market Returns

INDEX[1]	CLOSE	WEEKLY CHG	YEAR-TO-DATE CHG	12-MONTH CHG
Dow Jones Industrial Avg	11,644.49	541.37 / 4.9%	0.6%	5.3%
S&P 500	1,224.58	69.12 / 6.0%	-2.6%	4.1%
S&P 400 MidCap	855.84	56.66 / 7.1%	-5.7%	4.4%
NASDAQ	2,667.85	188.50 / 7.6%	0.6%	8.1%
NASDAQ 100	2,371.94	169.18 / 7.7%	6.9%	13.1%
Russell 2000	712.46	56.25 / 8.6%	-9.1%	1.3%

	10/14/11 CLOSE	10/14/10 CLOSE
10-Year U.S. Treasury	2.23%	2.52%

Data: The Wall Street Journal; Federal Reserve Board

Headlines This Week

Trade Deficit Unchanged · *(For: **Aug 2011** · Source: **U.S. Department of Commerce**)*

The U.S. trade deficit remained unchanged at $45.6 billion following a slightly more negative revision to July's estimate. Exports remained steady while imports rose modestly.

Retail Sales (+1.1%) • *(For: **Sep 2011** · Source: **U.S. Census Bureau**)*

Sales rebounded following an upwardly revised gain of 0.3% in August. Gains were broad-based with notable increases in motor vehicles & parts, clothing & accessories, gas stations, and food services & drinking places.

Looking Ahead

Next week's primary economic reports include:

Monday, Oct 17	**Industrial Production** (Sep)
Tuesday, Oct 18	**Producer Price Index** (Sep)
Wednesday, Oct 19	**Consumer Price Index** (Sep)
	Housing Starts (Sep)
Thursday, Oct 20	**Existing Home Sales** (Sep)

Stocks moved higher this week on continued progress in the European sovereign debt crisis. EU leaders now appear more focused on *how, rather than whether,* to recapitalize the region's banks. This is an important development as such measures previously lacked broad support. In particular, the differences between Germany and France, the two largest Eurozone economies, seem to be narrowing. How these talks will translate into policies, however, remains to be seen. The complicated political structure; as well as the competing interests of member nations, the European Central Bank, and the International Monetary Fund; suggest that the path will not be without setbacks. "Two steps forward, and one step back," is probably an appropriate description of expectations. Nevertheless, risks to the global economy have already reduced significantly. In response, stock valuations, Treasury yields and commodity prices, including oil, have increased.

Investors also cheered upbeat earnings announcements from *Pepsi* and *Google* and better-than-expected U.S. retail sales for September. *Pepsi* reported a 13% increase in revenues and a 4% increase in earnings on the strength of its international operations and snacks business; management noted encouraging success passing higher commodity costs along to consumers. *Google* improved revenues by 33% and earnings by 26%; notably, international revenues now represent 55% of the total. Meanwhile, Americans continue to spend despite elevated unemployment and a weak economic recovery. Ironically, the strong retail sales report was released the same day the consumer sentiment index posted its second lowest showing since April 2009. The latter, however, tends to be influenced by macro events and headlines which have been overwhelmingly negative of late. The old adage to watch as they do, not as they say, seems to apply.

Next week, many more companies will be reporting 3rd quarter earnings. Bellwether companies, including *IBM*, *American Express*, *Microsoft*, and *McDonald's*, will provide a comprehensive picture of global economic health. With fears related to Europe subsiding, and evidence of economic resilience in the U.S. and Asia, we believe markets are poised to respond positively to favorable results.

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[1]The Dow Jones Industrial Average is an unmanaged, price weighted measure of 30 U.S. stocks selected by the Averages Committee to represent the performance of all U.S. stocks outside the Transportation and Utilities sectors. The S&P 500 Index is an unmanaged, market capitalization weighted index which measures the performance of the large cap segment of the U.S. equities market, covering approximately 75% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy. The S&P MidCap 400 Index is an unmanaged, market capitalization weighted which measures the performance of the mid cap segment of the U.S. equities market. The Index includes 400 companies chosen on the basis of market capitalization, liquidity and industry group representation. The NASDAQ Composite Index is an unmanaged, market capitalization weighted measure of all domestic and international common stocks listed on The Nasdaq Stock Market. The NASDAQ 100 Index is an unmanaged, market capitalization weighted measure of 100 of the largest domestic and international non-financial securities listed on The Nasdaq Stock Market based on market capitalization. The Russell 2000 Index is an unmanaged, market-weighted measure of stock market performance. It contains stocks of the 2,000 smallest publicly traded companies of the Russell 3000 Index.