



PACIFIC GLOBAL
Investment Management Company

Weekly Recap

October 21, 2011

Market Returns

INDEX ¹	CLOSE	WEEKLY CHG	YEAR-TO-DATE CHG	12-MONTH CHG
Dow Jones Industrial Avg	11,808.79	164.30 / 1.4%	2.0%	6.1%
S&P 500	1,238.25	13.67 / 1.1%	-1.5%	4.7%
S&P 400 MidCap	861.26	5.42 / 0.6%	-5.1%	4.4%
NASDAQ	2,637.46	-30.39 / -1.1%	-0.6%	6.4%
NASDAQ 100	2,335.93	-36.01 / -1.5%	5.3%	11.0%
Russell 2000	712.42	-0.04 / 0.0%	-9.1%	1.3%

	10/21/11 CLOSE	10/21/10 CLOSE
10-Year U.S. Treasury	2.20%	2.57%

Data: The Wall Street Journal; Federal Reserve Board

Headlines This Week

Consumer Price Index (+0.3%) • (For: Sep 2011 • Source: U.S. Department of Labor)

The broad measure CPI rose following a 0.4% gain in August. The core CPI edged up 0.1% following a 0.2% rise in August. Annualized, core inflation held steady at 2.0%

Producer Price Index (+0.8%) • (For: Sep 2011 • Source: U.S. Department of Labor)

Following no change in August, the PPI heated up on rising food and energy costs. The core PPI, which excludes food and energy, edged up 0.2% following a 0.1% rise in August; the annualized core rate remained at 2.5%.

Industrial Production (+0.2%) • (For: Sep 2011 • Source: Federal Reserve Board of Governors)

After a downward revision to no change in August, production expanded as manufacturing and mining outpaced a decline in utilities output.

Existing Home Sales (-3.0%) • (For: Sep 2011 • Source: National Association of Realtors)

Following a 7.7% jump in August, existing home sales fell as weakness in single-family home sales offset higher condo sales. Supply remained heavy at 8.5 months and prices fell slightly to a median \$165,400.

Housing Starts (+15.0%) • (For: Sep 2011 • Source: U.S. Census Bureau)

Housing starts surged following August's 7.0% decline. Multifamily starts were strongest while single family home starts also rose. Permits, an indicator of future activity, fell 5.0% following a 4.0% rebound in August.

Looking Ahead

Next week's primary economic reports include:

Wednesday, Oct 26

Durable Goods Orders (Sep)

New Home Sales (Sep)

Thursday, Oct 27

GDP (Q3, Advanced)

The Bottom Line

Europe continued to dominate market sentiment this week even though earnings season was in full swing. Headlines seemed to fluctuate as various factions moved to alternately appease markets with bold promises and temper expectations with cautionary statements. The multi-faceted crisis requires that EU leaders must not only resolve Greece's perilous fiscal condition, but also protect the region's banks. The concern is that, by recapitalizing the banks, borrowing costs for other struggling nations, such as Italy and Spain, may become prohibitively expensive. EU leaders must accomplish all this in the face of extraordinary domestic political pressure. Anti-austerity riots in Greece are contrasted by growing disillusionment among Euro-skeptics in Germany. Still, we believe that, with slow, behind-the-scenes progress, the situation is advancing. Investors, hoping for an early end to the crisis, will likely be disappointed. Overall market sentiment, nevertheless, appears to be improving. Indeed, we may, absent any new shocks to the system, be on the cusp of a rising trend in equities.

In the third quarter, corporations, by all accounts, enjoyed strong earnings results: the international operations of multinational consumer brands *Coca-Cola* and *McDonald's* were impressive; telecom companies *AT&T* and *Verizon* continued to invest heavily in next-generation wireless networks; and energy services giants *Schlumberger* and *Halliburton* enjoyed increased activity in North American oil and gas drilling. This trend was also evident in *Kinder Morgan's* \$21 billion bid for *El Paso* which would create the nation's largest pipeline operator, and follows *Superior Energy's* action two weeks ago. Its offer to acquire *Complete Production Services* would consolidate the energy services industry. These results and activities support the comments that we have heard from management teams that the European debt crisis has yet to meaningfully impact company operations. Overall, with the European crisis inching toward resolution, the U.S. avoiding a double-dip recession, and China's announcement of continued strong GDP growth, we are optimistic for the prospects of high quality stocks.

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¹The 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.