



Weekly Recap

October 7, 2011

Market Returns

INDEX ¹	CLOSE	WEEKLY CHG	YEAR-TO-DATE CHG	12-MONTH CHG
Dow Jones Industrial Avg	11,103.12	189.74 / 1.7%	-4.1%	0.9%
S&P 500	1,155.46	24.04 / 2.1%	-8.1%	-0.8%
S&P 400 MidCap	799.18	17.92 / 2.3%	-11.9%	-1.5%
NASDAQ	2,479.35	63.95 / 2.6%	-6.5%	3.2%
NASDAQ 100	2,202.76	63.58 / 3.0%	-0.7%	8.7%
Russell 2000	656.21	12.05 / 1.9%	-16.3%	-5.4%

	10/07/11 CLOSE	10/07/10 CLOSE
10-Year U.S. Treasury	2.07%	2.41%

Data: The Wall Street Journal; Federal Reserve Board

Headlines This Week

Job Growth Better-Than-Expected • (For: Sep 2011 • Source: U.S. Department of Labor)

Employers added 103,000 jobs to their payrolls following upwardly revised gains of 57,000 positions and 127,000 positions in August and July, respectively. The nation's unemployment rate remained at 9.1%.

Manufacturing Sector Expands at a Modest Pace • (For: Sep 2011 • Source: Institute for Supply Management)

The ISM Manufacturing Index* rose to 51.6 from 50.6 in August. There was a notable increase in manufacturing hiring during the month.

Service Sector Growth Holds Steady • (For: Sep 2011 • Source: Institute for Supply Management)

The ISM Non-Manufacturing Index* edged down to 53.0 from 53.3 in August. New orders remained strong and overall business activity remained high.

*An ISM Index reading of 50 or above indicates sector expansion.

Looking Ahead

Next week's primary economic reports include:

Thursday, Oct 13

International Trade (Aug)

Friday, Oct 14

Retail Sales (Sep)

Markets received a shot to the arm this week. Policymakers in Europe inched closer to a resolution to the sovereign debt crisis while new data revealed unexpected strength in the U.S. economy. Tuesday's remarkable rally underscored the degree to which the European crisis has played out on domestic shores; the Dow spiked nearly 400 points over the final hour of trading on news that the EU was considering measures to recapitalize its banks. Tangible progress continues at a glacial pace, but investors took encouragement from the direction of the negotiations. Supporting the positive momentum this week were reports that the U.S. economy, while mired in a tepid recovery, is not slipping back into recession. Better-than-expected automotive sales, retail sales, manufacturing growth, and jobs data contributed to an improved view on existing conditions. *Financials* remained under pressure due to uncertainty related to European sovereign debt exposure. Nevertheless, renewed interest in cyclical sectors such as *Energy* and *Industrials* reflects the view that the likelihood of a double-dip recession has declined.

Third quarter earnings season begins next week. *Alcoa* reports its results on Tuesday, followed by *Pepsi*, *JPMorgan*, and *Google*. Over the past couple months, we have met with numerous management teams from companies in the *Industrials* and *Energy* sectors. The message from these executives is unequivocal: to date, their business activity has been unaffected by the situation in Europe. Indeed, if not for the schizophrenic volatility of the stock market, they would be significantly more confident in present conditions and future prospects for the economy. These conversations color our expectations for upcoming earnings reports and management commentary. Results may exceed analyst estimates; however, we believe management will likely err on the conservative side with cautious outlooks for their companies. This may lead to a choppy trading environment, as investors weigh the ongoing strength of these businesses against the uncertainty that lies ahead. We contend that progress in the European debt crisis as well as our own economic recovery will continue. As such, many stocks, at today's valuations, may represent an attractive bargain for long-term investors.

It would be remiss not to note the passing of Steve Jobs. As the visionary leader of *Apple*, he left an impact on society that has been compared to the likes of Thomas Edison, Henry Ford, and even John Lennon. These icons had a rare gift of genius married to a relentless passion that proved revolutionary and inspired generations. If there is any comfort in their passing, it is in knowing that others will come to take up their mantle. As we contemplate the challenges facing our country, we may also consider our great fortune to live in a society that not only cultivates, but aspires to, the likes of Steve Jobs and all who came before him.

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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.