AUGUST 2011

Market Index	August Change	Year to Date
Standard & Poor's 500	-5.4%	-1.8%
Dow Jones Industrial Average	-4.0%	2.2%
Russell 2000 (small company)	-8.7%	-6.5%
MSCI EAFE (international)	-9.0%	-6.0%
Barclays Intermediate Gov/Credit Index	1.1%	5.0%
3-Month Treasury Bill	0.0%	0.1%

Concerns about sovereign debt – both in the U.S. and around the world – spooked investors in August. In the first several days of the month alone, the S&P 500 Index plunged as much as 15%. This marked the third worst rolling-weekly period in its modern history, surpassed only by the 1987 stock market crash and the 2008 timeframe when Lehman collapsed. Although the market recovered some ground to finish the month down just 5.4%, it was still the fourth straight monthly drop for the market and the worst August since 2001. The bond market continued to benefit from the uncertainty, as investors seeking safety drove bonds, particularly U.S. Treasury issuances, higher. The Barclays Intermediate Government/Credit Index returned 1.1% during the month.

For a month that traditionally has been slow as Wall Street goes on summer vacation, this August consisted of wild swings and heavier trading volumes. More than 1 out of 4 of August's trading days consisted of 400 point or more moves in the daily closing prices of the Dow Jones Industrial Average. For many, the volatility was too much to take. According to Investment Company Institute estimates, domestic stock mutual fund outflows were over $35 billion in the last four weeks – the largest since October 2008.

Gold and U.S. Treasuries were among the top performing assets in the month, reflecting a demand for safe-haven investing. Gold was volatile but rallied 12% through the $1,800/ounce level, reaching new nominal highs. The 10-year Treasury yield touched below 2% for the first time in at least 50 years. The S&P 500's dividend yield is now higher than the yield on a 10-year Treasury bond. U.S. large-cap, quality stocks fared better among equities, but 8 out of 10 sectors declined in August. Only the more stable Utilities and Consumer Staples sectors had positive returns.

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European sovereign debt concerns continued to increase amidst rumors of bank liquidity crunches. It brought back eerily similar memories from 2008, when several large banks in the U.S. were under pressure. The complication of coordinating policy across Euro member countries with varying fiscal situations and incentives has also contributed to the anxiety. Some of the bailout measures proposed, for example, are subject to interpretation from the courts of individual countries. On top of these global concerns, investor confidence has also been dampened by debt ceiling resolution in the U.S. The end result of the political posturing can only be described as very disappointing, and the reaction from the markets and the ratings agencies reflected this sentiment.

Meanwhile, the domestic economy is struggling to move forward. The dreaded "soft patch" that occurred in mid-2010 reared its head again. Growth estimates for the first and second quarter were revised lower. In what seems like a broken record, unemployment and housing remain in a troubled state. Low investor confidence and poor public sentiment seem pervasive, which makes a recovery tougher. With the economy growing at an anemic rate, double-dip recession concerns have increased.

The stock market rallied toward the end the month amid hopes that the Federal Reserve (Fed) will continue to keep policy accommodative toward monetary stimulus. About this time last year, when the domestic economy was slowing, QE 2.0 was in the works. This monetary stimulus program, in retrospect, had minimal impact on the actual economy, but it did cause asset prices to rise. Now, with interest rates already extremely low and rising skepticism about more quantitative easing, the Fed has less arrows in its quiver to affect the economy. Fiscal policy is a murkier situation. Fed Chairman Bernanke opined in his Jackson Hole speech that "most of the economic policies that support robust economic growth in the long run are outside the province of the central bank" and that "the country would be well served by a better process for making fiscal decisions." The political appetite for more government spending, though, is much less today given the debt realities that our country faces.