

Market Index	August Change	Year-to-Date
Standard & Poor's 500	3.6%	15.0%
Dow Jones Industrial Average	4.0%	10.8%
Russell 2000 (small company)	2.9%	15.7%
MSCI EAFE (international)	5.4%	24.2%
Barclays Intermediate Gov/Credit Index	1.0%	4.0%
3 Month Treasury Bill	0.0%	0.1%
Commodities	2.2%	20.3%

**Another month, another gain...**

The S&P 500 posted its sixth consecutive monthly gain in August, returning 3.4%. The index rose above the 1000 level for the first time since last November, and is now more than 50% above its March low. Bond returns were also positive as credit spreads continued to tighten and inflation expectations remained low. Not all equity markets continued their surge in August. Both China and Hong Kong were down 7%. The Chinese government made comments suggesting that some type of monetary tightening may be needed to control inflation pressures that may arise following its massive stimulus package. Commodities prices were also weak in August, which may have also contributed to the profit-taking in some of the faster-growing countries. The Finance sector was the standout performer, up 13% in the month, as investors continued to gain confidence that the worst of the credit crisis is behind us. Some of America's neediest companies, like AIG and Citigroup, were the sector leaders, up 245% and 58% respectively. August is typically a popular vacation month for Wall Street, and trading volumes are usually low -- but not in Finance this year. Citigroup alone made up 19% of the entire New York Stock Exchange volume in August! Government stimulus has been directly aimed at the beleaguered Finance sector and stock performance in that sector would suggest that the government's actions were successful in reviving the sector -- Finance is the best performing sector from the March low.

**Bernanke sticks to it**

During the month, the Federal Reserve said it plans to leave rates unchanged "for an extended period." Their statement remarked that "economic activity is leveling out", but that the Fed expects that "economic activity is likely to remain weak for a time" and "inflation will remain subdued for some time." The Fed's plans to purchase \$300 billion of Treasury securities will now be extended through October. Also, President Obama announced that Ben Bernanke will be re-appointed as Federal Reserve chairman. While there have been vocal opponents to the Fed's policy, most economists, policymakers, and investors agree that continuity is important right now.

**Corporate America is pulling all levers to generate profits**

After a steep decline in earnings in 2009, earnings estimates for 2010 continue to improve, now suggesting 27% growth. Many economic indicators seem to be bottoming, companies are controlling expenses, and government efforts to boost consumer spending (e.g. cash-for-clunkers & first-time homebuyer credits) are boosting near-term growth. Longer-term, though, economic growth will likely be more muted than previous cycles due to lingering problems related to a deleveraging economy.