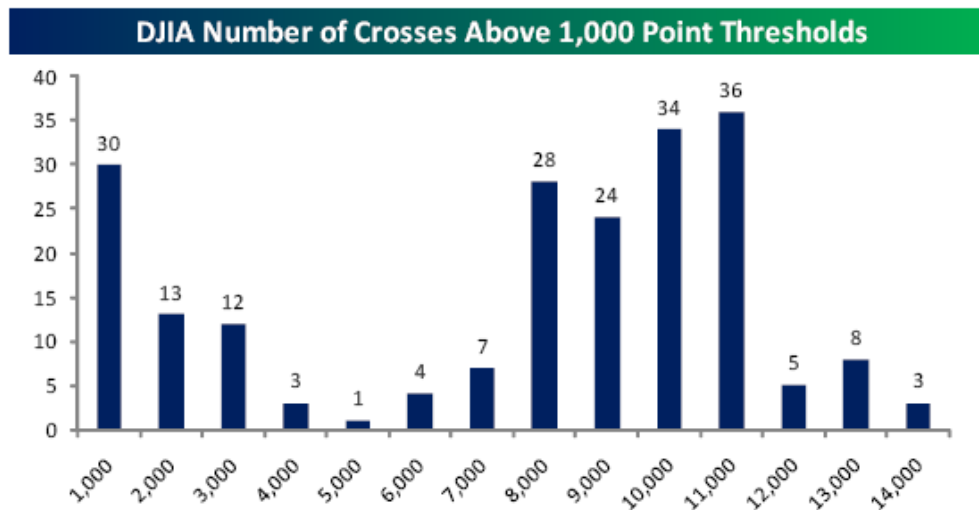


Weekly Market Recap

August 30, 2010

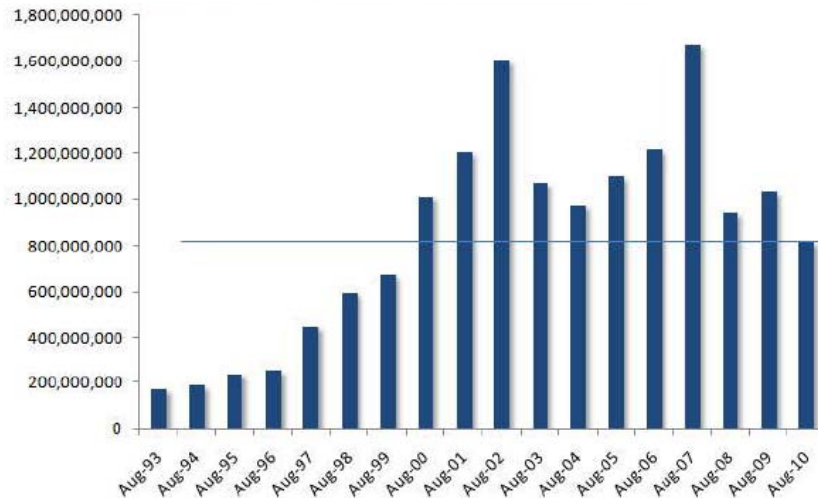
Last Week:

- Stocks finished lower, with the Dow Jones Industrial Average shedding 63 points, or -0.6%
 - The modest 63-point net move belies some more significant intra-week peaks and valleys, with the Dow dropping 134 points on Tuesday, only to see a 165 point rebound Friday
 - It's not just your imagination – the Dow has crossed the psychologically important 10,000 level 34 times now (chart courtesy Bespoke)

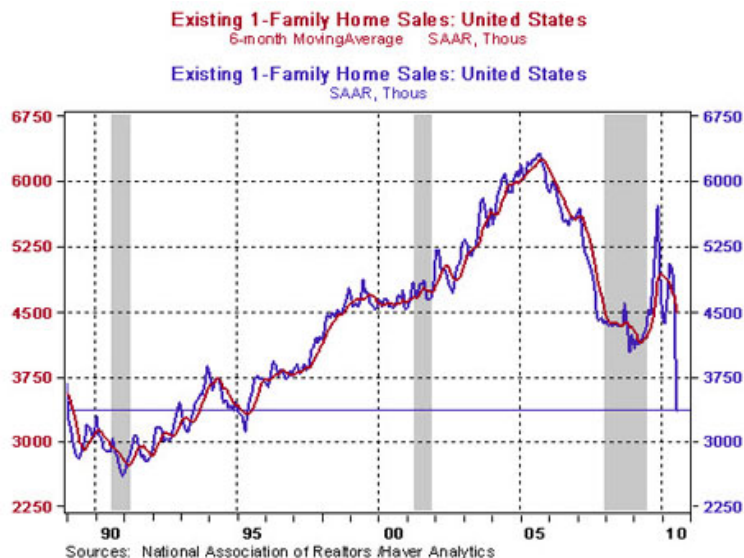


- Top performers were led by **Kraft** (+3.1%), Home Depot (+2.0%), AT&T (+1.9%), DuPont (+1.7%), and Merck (+1.6%)
- The Dow's worst constituents for the week were Hewlett-Packard (-4.6%), Caterpillar (-4.3%), **Intel** (-2.9%), Alcoa (-2.4%), and United Technologies (-2.3%)
- The S&P 500 lost 7 points, or -0.7%
 - Best groups included Utilities (+1.9%) and Telecommunications (+1.0%)
 - Laggards were Technology (-2.0%) and Industrials (-1.2%)
- S&P Midcaps lost -0.3%
- S&P Smallcaps were the week's best performer, +1.0%
- NASDAQ lagged, beating a 26 point retreat for the week, or -1.2%
- August trading volume has been light, the lightest since 1999, according to Bespoke

Average S&P 500 Daily Volume in First 16 Trading Days of August



- Gold tacked on another \$9 per ounce, to finish at \$1,236
- Oil rebounded \$1.70/barrel, ending the week just above \$75
- Meanwhile, natural gas lost another 4.4%, hitting an 11-month low at \$3.65/mmcft
- On Thursday, 30-year Treasuries yielded just 3.53%, their lowest level since April 2009. Yields on 10-year notes similarly broke below 2.5% intraweek, before closing at 2.65%, slightly higher than their prior week's close
- The dollar hit a fresh 15-year low against the Yen, sub-84
- Speaking of Japan, its stock market entered official bear market territory, having dropped more than 20% since April
- European and Asian bourses were mostly lower last week
- House Minority Leader John Boehner called for President Obama's economic team, including Treasury Secretary Geithner and former Treasury Secretary Summers, to resign
 - "We do not have the luxury of waiting months for the president to pick scapegoats for his failing 'stimulus' policies," Boehner said. "We've tried 19 months of government-as-community-organizer. It hasn't worked."
 - Vice President Joe Biden responded by saying: "After all this buildup and hype, all we know is what John Boehner and his Republican colleagues are against. I don't know what they're for that is going to change our economic circumstances"
- Economic data was again weak, for the most part:
 - July existing home sales dropped -27.2% sequentially, and -25.5% year-over-year, causing months of housing supply to balloon to 12.5, from 8.9 just a month ago

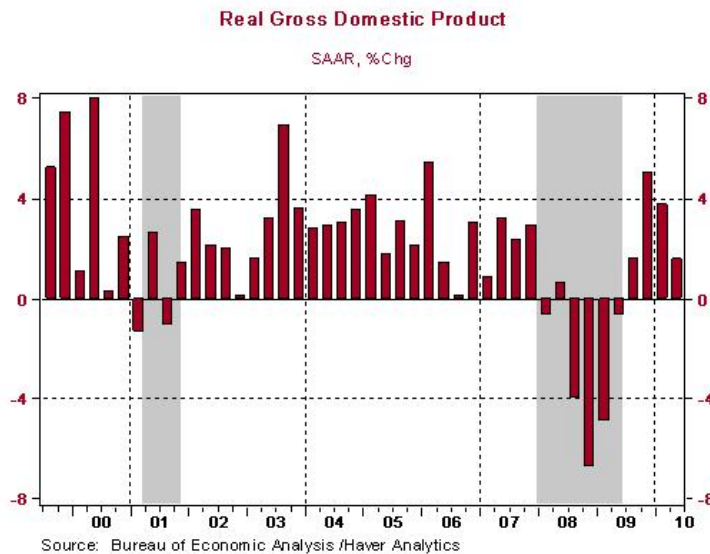


- July new home sales were no better, -12.4% sequentially, and -32.4% year-over-year. The median price of a new home fell -7.6% sequentially, and -5% year-over-year. See what happened when the homebuyer tax credits expired?

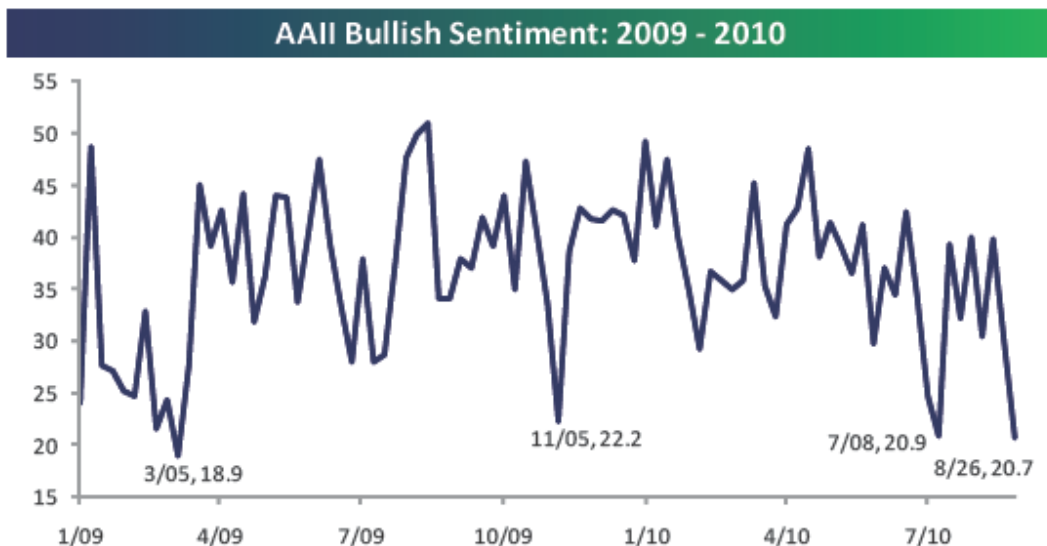
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- July Durable Goods orders rose 0.3%, far below the 2.7% expectation. Ex-transportation, Durable Goods fell -3.8%, their worst showing since January 2009
- Toward week's end, the news improved a bit:
 - Weekly jobless claims were 473,000, down from the prior week's 504,000
 - Second quarter GDP was revised from +2.4% to +1.6%, though that exceeded the 1.4% consensus. Still, the "recovery" seems to be flagging, as shown in the accompanying chart



- Stocks rallied on Friday, partly in response to Fed Chairman Ben Bernanke’s speech, in which he said the Fed is prepared to “do all that it can,” up to and including further quantitative easing -- if economic conditions warrant such action
 - The U.S. economy “remains vulnerable to unexpected developments,” Bernanke said, citing growth that has been “less vigorous than we expected.” Among the tools Bernanke is considering: “Additional purchases of longer-term securities”
 - Kansas City Fed President Thomas Hoenig said “No reasonable economist should expect more than a modest recovery”
 - While St. Louis Fed President James Bullard said, “A double dip is unlikely,” and he is “very optimistic the economy can grow at its potential in 2011.” He did, however, state that he expects “slower, but positive growth in the second half of 2010.” Slower than last quarter’s 1.6%?
- Contrarians probably are rejoicing that the AII measurement of stock market sentiment of individual investors recorded its lowest reading since March 2009 (chart courtesy Bespoke). Just 20.7% of those surveyed consider themselves as bullish, while 49.5% were bearish



- Among other things, that no doubt reflects the fact that the Dow had fallen in 10 of the 13 trading sessions leading up to Friday's triple-digit advance
- Another contrarian signal, perhaps, is that the proportion of analyst Buy ratings stands at an all-time low. More than 54% of analyst ratings are "Holds," according to Bloomberg, the highest level since Bloomberg began tracking the data in 1997
- S&P cut its credit rating of Ireland's sovereign debt to AA-, citing "rising budgetary cost of supporting the Irish financial sector, [which] will weaken the government's fiscal flexibility over the medium term"
- Some market participants fear that U.S. municipal debt also faces plenty of risk, although we note state tax revenues were up 2.2% in the second quarter, the second consecutive positive report after five quarters of declines
 - "When you look at the state of some of the state and city finances it sort of makes Greece look like it's a solid credit," said Jim Tisch, CEO of conglomerate Loews
- Meanwhile, consumers continue to deleverage their personal balance sheets, with credit card debt falling 4.1%, to an average of \$4,591 per person
 - That's an eight-year low
 - Credit card delinquency rates also continued to drop
- **Intel** reduced its guidance for third-quarter sales and margins, based on "weaker than expected demand for consumer PCs in mature markets"
- Elsewhere in the Technology sector, Hewlett-Packard and **Dell** continue to leap-frog each other's bids for 3PAR. The going price is now \$2 billion, a wee bit higher than the \$1.15 billion Dell initially offered two weeks ago
- After previously indicating it was an interested suitor, Sanofi-Aventis formally announced it is seeking to acquire biotech maker Genzyme for \$69/share in cash. Genzyme has rejected that bid as "unrealistic"
- The Justice Department has permitted the merger between United and Continental Airlines to proceed

This Week:

- Asian markets were mostly higher overnight
- It's a national holiday in Britain today, so its markets are closed
- Intel said it is buying Infineon's baseband radio chip business for \$1.4 billion
- Hewlett-Packard announced a new \$10 billion repurchase program, and said it will buy back at least \$3 billion during the current quarter – interesting timing and news considering the bidding war for 3PAR remains unresolved
- 3M announced it is buying publicly traded Cogent, a biometric identity firm, for \$10.50/share, an 18% premium to Friday's closing price
- Apple will announce its next new product(s) Wednesday
- The season's first hurricane headed for the east coast is on its way. Keep your eyes peeled for Earl
- Friday's employment report highlights the week's economic calendar:
 - Today: July Personal Income (cons: +0.3%, actual +0.2%) and Consumption (cons: +0.3%, actual +0.4%), Personal Savings Rate (actual +5.9%, down from last month's 6.2%)
 - Tomorrow: August Chicago PMI (cons: 57.0), August Consumer Confidence (cons: 50.9)
 - Wednesday: ADP National Employment Report, Challenger Job Cuts, Monthly Vehicle Sales, August ISM Manufacturing (cons: 52.8), July Construction Spending (cons: -0.5%)

- Thursday: Pending Home Sales Index, Chain Store Sales, Factory Orders (cons: +0.4%), 2Q Productivity (cons: -1.9%)
- Friday: Monthly Employment Report (cons: -100,000 non-farm payrolls; unemployment rate 9.6%), ISM Non-Manufacturing
- It's a light week for corporate earnings reports. Among those scheduled to announce this week are:
 - Monday: Donaldson, Origin Agritech, Prospect Capital, and Winn-Dixie
 - Tuesday: ABM Industries, Accuray, Applied Signal Technologies, Concurrent Computer, Danaos, Dollar General, DSW, Energy Conversion Devices, Isle of Capri Casinos, K-Sea Transportation
 - Wednesday: Brown Forma, Casella Waste Systems, Charming Shoppes, China Green Agricultural, Collective Brands, Express, Fuelcell Energy, Genesco, Heinz, Hovnanian, Joy Global, LTX Credence, Martek Biosciences, Oxford Industries, SAIC, Zale
 - Thursday: Arcsight, Cooper Companies, Del Monte Foods, Esterline Technologies, Finisar, H&R Block, Layne Christensen, Mitel Networks, Movado Group, Quiksilver, Seachange International, Sycamore Networks, UTI Worldwide, Take Two, Ulta Salon Cosmetics and Fragrances
 - Friday: Campbell Soup
- Conferences and Events this week include:
 - Monday: Fed's Bullard speaks; \$30 bln 3 and 6-month Treasury Bills Auctions
 - Tuesday: August FOMC Minutes; 3M, Emerson, **Illinois Tool Works** at Morgan Stanley Global Industrials Conference; Osh-Kosh at Three Part Advisors, LLC Midwest IDEAS Investor Conference
 - Wednesday: Fed's Duke, Fisher, and Evans speak; Cheniere Energy, **Kinder Morgan** at UBS MLP One-on-One Conference
 - Thursday: Fed's Rosengren and Pianalto speak; Pioneer Natural Resources, Southwestern Energy at Simmons & Company Energy Conference
 - Friday: Fed's Lockhart speaks; 10-yr TIPS Auction
- U.S. stock and bond markets will be closed next Monday, in honor of Labor Day

CHOICE Portfolio Performance, Net of Fees.

- **Leaders -3.4%** year to date, **+7.6%** cumulative, since inception (1/1/01)
- **Special Opportunities -3.9%** year to date, **+111.2%** since inception (1/1/01)
- **Equity Income 1.5%** year to date, **+74.1%** since inception (1/1/01)
- S&P Total Return **-3.2%** year to date, **-3.3%** since CHOICE inception (1/1/01)

- **Enhanced Equity -2.8%** year to date, **+23.4%** since inception (1/1/04)
- S&P Total Return **-3.2%** year to date, **+9.6%** since CHOICE inception (1/1/04)

Thanks, as always, for your interest in our thoughts and support of our services

Adam Bergman, CFA
Senior Portfolio Analyst

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