



Monthly Investment Update

March 1, 2011

The Markets

Strong performances early in the month helped domestic equities turn in a February that took the Dow Jones Average to its highest level since June 2008. February also was the third straight month of gains for both the Dow and the S&P 500, which have risen more than 11% and 12%, respectively, since the end of November. The small cap stocks of the Russell 2000, which suffered in January, rebounded strongly; by month's end, both the Russell and the NASDAQ had more than doubled since their March 2009 closing lows. The NASDAQ is up more than 11% in the last three months, while both the Russell 2000 and the Global Dow have risen just over 13% in the same time.

Market/Index	2010 Close	Prior Month	As of 2/28	Month Change	YTD Change
DJIA	11,577.51	11,891.86	12,226.34	2.81%	5.60%
NASDAQ	2,652.87	2,700.08	2,782.27	3.04%	4.88%
S&P 500	1,257.64	1,286.12	1,327.22	3.20%	5.53%
Russell 2000	783.65	781.25	823.45	5.40%	5.08%
Global Dow	2,087.44	2,144.66	2,208.00	2.95%	5.78%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	3.30%	3.42%	3.42%*	0 bps*	12 bps

*As of 2/25/2011 (most current data available from U.S. Treasury at time of publication).

The Month in Review

- Unemployment continued to fall, dropping from 9.4% to 9%, according to the Bureau of Labor Statistics. However, the number of nonfarm payroll jobs was a disappointing 36,000 compared to the 121,000 added during the previous month.
- Both wholesale and consumer inflation were up for the seventh straight month. Even though the increases announced by the Bureau of Labor Statistics were driven primarily by volatile food and energy costs, other prices also rose. However, the annual consumer inflation rate was still only 1.6%.
- U.S. manufacturing as measured by the Institute for Supply Management increased for the 16th consecutive month, and the services sector also showed a strong increase during the month.

- As the Middle East underwent seismic political change, concern about oil supplies sent prices soaring to their highest level since fall 2008, which in turn helped fuel a spike in prices at the pump.
- Though the economy continued to grow during Q4 2010, the 2.8% annual rate was slower than the Commerce Department had originally estimated. Leading economic indicators compiled by the Conference Board were generally positive, and retail sales rose as well.
- Housing starts were up strongly, though the Commerce Department said most of the increase was in multi-family housing. Sales of existing homes rose 2.7%, according to the National Association of Realtors®, but the Commerce Department said new-home sales were down 2.4%. Home prices tracked by the S&P/Case-Shiller 20-city index fell by an average of 1%.

Eye on the Month Ahead

The potential impact of Middle East unrest will continue to be a focus, until investors are reassured that oil supplies are not threatened. As the spring home-buying season gets underway, the state of the U. S. housing market will be watched intently. Investors also will be trying to determine how much further the three-month rally in domestic equities might run, especially if inflation and economic data begin to raise the possibility of an earlier-than-expected end to the Fed's easy-money policy. We don't expect the emerging data to support the case for near term inflation problems in the U.S. and other developed countries. Also, the Fed remains concerned about slack in the economy and is therefore unlikely to change its easy money policy stance this year.

Key dates and data releases: U.S. manufacturing, construction spending (3/1); Federal Reserve "beige book" report (3/2); labor productivity and costs, U.S. services sector (3/3); unemployment, factory orders (3/4); international trade balance (3/10); retail sales, business inventories (3/11); import/export prices, international capital flows, Federal Reserve Open Market Committee (3/15); housing starts, wholesale inflation (3/16); consumer inflation, industrial production (3/17); quadruple witching options expiration (3/18); home resales (3/21); new home sales (3/23); durable goods orders (3/24); final Q4 gross domestic product (3/25); personal income/spending (3/28); home prices (3/29).

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. Market indexes listed are unmanaged and are not available for direct investment.

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