



## Monthly Investment Update

May 3, 2011

### The Markets

Domestic equities hit new year-to-date highs, as the Dow's best month so far this year put it at a level not seen since May 2008. The interest in large caps snatched the year-to-date performance crown from the Russell 2000; however, the small-cap index's gains since March 2009 have put it at its highest level on record, even surpassing its October 2007 high by the end of the month. The NASDAQ, which struggled in March, also had its best month of 2011, while the S&P 500 ended April north of the trading range it's been in since February. The Global Dow rebounded strongly from its March slump, though it still lagged the domestic indices year-to-date.

Market/Index	2010 Close	Prior Month	As of 4/29	Month Change	YTD Change
<b>DJIA</b>	11577.51	12319.73	12810.54	3.98%	10.65%
<b>NASDAQ</b>	2652.87	2781.07	2873.54	3.32%	8.32%
<b>S&amp;P 500</b>	1257.64	1325.83	1363.61	2.85%	8.43%
<b>Russell 2000</b>	783.65	843.55	865.29	2.58%	10.42%
<b>Global Dow</b>	2087.44	2186.41	2255.22	3.15%	8.04%
<b>Fed. Funds</b>	.25%	.25%	.25%	0 bps	0 bps
<b>10-year Treasuries</b>	3.30%	3.47%	3.32%	-15 bps	2 bps

### The Month in Review

- U.S. economic growth slowed in the first quarter. The Bureau of Economic Analysis reported that reduced government spending at all levels and higher imports (subtracted from gross domestic product) were key factors in the drop in GDP to a 1.8% annualized growth rate from the previous quarter's 3.1%. Bad weather and higher gas prices also contributed to the soft patch.
- The Federal Reserve reiterated its plan to end its QE2 bond-buying program as scheduled by the end of June. However, it continued to support the economy by keeping interest rates exceptionally low. That put the Fed on a somewhat different track from its counterparts in the European Union (EU) and China, both of which hiked rates last month. In the wake of the Fed's announcement, weakness in the dollar accelerated, leaving it at its lowest level (roughly \$1.48 versus the euro) since late 2009.
- Political conflict that nearly shut down the federal government heated up even before competing plans for cutting the budget deficit were introduced. The sparring also prompted a warning from Standard & Poor's. The rating agency issued a negative long-term outlook on U.S. debt, saying the potential for a prolonged stalemate increases the chance of a downgrade of the nation's AAA bond rating in the next two years unless the issues are addressed. S&P also slapped a negative outlook on Japanese sovereign debt and downgraded Portuguese and Greek government bonds (Portugal became the third nation to ask its EU colleagues for a bailout).

- Inflation concerns helped gold continue to hit new heights as it moved well above \$1,500 an ounce just two months after it hit \$1,400. Oil also continued to march upward; higher gas prices were a major factor in an annual inflation rate of 2.7% for consumers and a 5.8% wholesale inflation rate, according to the Bureau of Labor Statistics.
- Corporate earnings reports were generally positive, and the Commerce Department said retail sales enjoyed the ninth consecutive month of increases, though April's report showed signs of slowing. Meanwhile, unemployment fell for the fourth straight month; April's 8.8% rate was the lowest rate in two years, according to the Bureau of Labor Statistics. Building permits and sales of both new and existing homes improved compared to the previous month's strong decline, though the Commerce Department said they're still far below the previous year.

## Eye on the Month Ahead

The news of bin Laden's death is positive for consumer and investor confidence at the margin, but the impact is expected to be short-lived, as investors are more focused on other events and economic data releases. The recent soft patch in the data and concerns over rising gas prices has cast investors into a pessimistic mood about the economic and financial outlook. Earnings reports will likely continue to dominate the next few weeks and so far the news has been good. However, as the deadline for increasing the U.S. debt ceiling nears--it could be as early as May 16--debate in Washington is likely to intensify. European debt concerns could resurface if Greece's situation worsens. Equities are ripe for a consolidating correction this summer, though the secular bull market is expected to remain intact. Bonds are expected to suffer under the weight of the end to QE2 and the prospects for rising inflation and interest rates.

Key dates and data releases: U.S. manufacturing, construction spending (5/2); auto sales, factory orders (5/3); services sector (5/4); productivity and labor costs (5/5); unemployment/payrolls (5/6); import/export prices (5/10); international trade (5/11); wholesale inflation, retail sales, business inventories (5/12); consumer inflation (5/13); international capital flows (5/16); housing starts, industrial production (5/17); Federal Open Market Committee (FOMC) minutes (5/18); home resales (5/19); options expiration (5/20); new-home sales (5/24); durable goods orders (5/25); Q1 GDP revised estimate (5/26); personal income and spending, pending home sales (5/27); home prices (5/31).

*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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