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AND THAT'S THE WEEK THAT WAS…
For the Week Ended August 27, 2010

Market Matters…

Market/Index	Year Close (2009)	Qtr Close (06/30/10)	Previous Week (08/20/10)	Current Week (08/27/2010)	YTD Change
Dow Jones Industrial	10,428.05	9,774.02	10,213.62	**10,150.65**	**-2.66%**
NASDAQ	2,269.15	2,109.24	2,179.76	**2,153.63**	**-5.09%**
S&P 500	1,115.10	1,030.71	1,071.69	**1,064.59**	**-4.53%**
Russell 2000	625.39	609.49	610.78	**616.76**	**-1.38%**
Global Dow	1,984.48	1,710.71	1,811.48	**1,793.44**	**-9.63%**
Fed Funds	0.25%	0.25%	0.25%	**0.25%**	**0 bps**
10 yr Treasury (Yield)	3.85%	2.95%	2.61%	**2.65%**	**-120 bps**

The sky is falling; the sky is falling (and bringing down equities with it). After enjoying a nice run for the past year-and-a-half-ish, investors had gone into bearish mode and didn't seem inclined to turn back anytime soon (or at least until Friday). Once overly optimistic, CNBC now seems to enjoy being the bearers of bad news as talking heads spent the week predicting double-dip recessions and lost momentum for a recovery. Former Fed Vice Chair Alan Binder spoke out against the policymaker's current arsenal, claiming "*they're not very effective*." Amid the poor housing numbers, weakness in labor, and ongoing consumer fears, hardly anyone has anything good to say about the economy (and market). Except maybe…the **Milken Institute**. In a study called "From Recession to Recovery," the non-profit economic think tank pointed out that Dr. B. recently called for moderate growth for 2010, and the frenzy over his recent "*unusually uncertain*" comment has been overblown. Global growth in emerging Asian countries has supported demand for Made-in-the-USA exports and multinational companies like **Caterpillar** are benefiting immensely. Low interest rates are allowing businesses and consumers to borrow at extremely favorable levels; the $2 trillion in cash sitting on corporate balance sheets is leading to enhanced reinvestment, increased M&A activity, and deleveraging (pay down debt). Still other companies are returning cash to shareholders through stock buybacks and/or higher dividends that hopefully will be reinvested in the economy. How's that for a bit of positive news?

The deals of the week confirmed growing boardroom optimism as **HP** and **Dell** engaged in an all-out bidding war for storage company **3PAR**; **HSBC** hopes to buy a stake in South Africa's **Nedbank**; and Warren Buffett plans to acquire the remaining shares of **Berkshire** subsidiary **Wesco Financial**. With **Potash** in play (after **BHP**'s unfriendly offer), a Chinese private equity fund may have interest. In other (seemingly favorable) news, homebuilder **Toll Brother** posted its first quarterly profit in almost three years; **Boeing** announced plans to double its employee base in its Chinese factories (despite new delays in Dreamliner); and **AIG** is prepared to pay back almost $4 billion in bailout money. On the downside, **Intel** warned that upcoming revenues would be lower than previously predicted due to weaker computer sales.

Despite a series of promising deals which implied growing confidence and a trend toward more risk-taking from executive suites, investors focused mainly on the sluggish housing reports and sudden concerns from manufacturing. Interestingly, analysts knew that home sales would slow following the end of the government tax incentive for buyers, and many anticipated a stall in manufacturing activity once companies restocked inventories. Still, investors reacted with "shock and awe" that the recovery would indeed be "moderate" (as Bernanke and friends have predicted all along). Oil plunged to the lowest level since early July as the weakness implied diminished demand (despite AAA's call for an increase in travel over Labor Day). The Dow fell below the pivotal 10,000 level before ending the weak on a stronger note as the revised GDP release was not as bad as predicted. A few more optimists out there? Just who is this Milken guy anyway?

Economic Calendar

Date	Release	Comments
August 24	Existing Home Sales (07/10)	Lowest level since May 1995
August 25	Durable Goods Orders (07/10)	Lower than expected led by transportation goods
	New Home Sales (07/10)	Lowest level of sales since records kept (1963)
August 26	Jobless Claims (08/21/10)	Larger than expected drop; moving average higher
August 27	GDP – revised (2^{nd} quarter ’10)	Downward revised not as bad as many feared
The Week Ahead		
August 30	Personal Income/Spending (07/10)	
August 31	Consumer Confidence (08/10)	
September 1	Construction Spending (07/10)	
	ISM Index – Manu (08/10)	
September 2	Jobless Claims (08/28/10)	
	Factory Orders (07/10)	
September 3	Unemployment Rate (08/10)	
	Nonfarm Payroll (08/10)	
	ISM Index – Services (08/10)	

First the bad news…The pace of existing home sales declined by its lowest level in 15 years as housing activity came to a virtual standstill in July. Additionally, new home sales fell to a record low (since 1963) as the sector experienced no immediate follow-though in the aftermath of the tax credit. Bear in mind, housing activity had expanded once the government stepped in with the stimulus and many homebuyers pushed up their purchases to take advantage. While some claim the weakness is an indication that the prior growth was artificial and only occurred because of the fiscal policy, the eternal optimists look to the auto sector and point out that growth has picked up again even though “cash-for-clunkers” ended last year. In fact, orders for cars and airplanes contributed to the 0.3% increase in July durable goods orders, though manufacturing seemed to be on the decline once transportation was removed from the equation. (Then again, isn’t transportation still part of the economy?) While labor remains the key concern among many investors, the (always volatile) jobless clams report showed a larger than expected decline (though the four-week moving average remains at its highest level since last November). As expected, GDP growth was revised lower to +1.6% (from +2.4%) in the second quarter, though investors rejoiced that it wasn’t worse. Looking abroad, the European purchasing managers indexes (both manufacturing and services) fell in August, though both Germany and France revealed gains as the stronger economies continue to benefit from the weakness in the euro.

Despite a lackluster showing from the Kansas City Fed’s manufacturing index, its President confirmed that he still believed a “*modest recovery is underway*.” Bernanke led a meeting of the world’s central bankers who gathered to debate the direction of the global economy and lay out a plan of action to move forward in a positive direction (in spite of what Alan Binder and some CNBC talking heads may be saying). Investors seemed pleased with Dr. B’s commitment to do “whatever it takes” to promote economic growth if additional measures are deemed necessary.

On the Horizon…**Apple** is set to introduce the “next new thing” as a mass email announced a September 1st event and speculation centers around iPod upgrades and developments with Apple TV. Economists (and investors) better get some rest this weekend as the upcoming calendar is quite hectic with critical news from housing, manufacturing, and, of course, labor. “Hope springs eternal” for some signs (any signs) of improvements in the unemployment rate and non-farm payroll data. (If all these businesses are hoarding cash, why can’t they use some on payroll expenses?...see above). Finally, next week leads into Labor Day, the official end of summer. Hopefully, retailers will report better than expected “back-to-school” activity and AAA is right on target with its prediction of enhanced travel during the weekend. And, maybe there will even be another bull sighting (or two) once vacations end and volume picks back up?