

## TWO STEPS FORWARD, ONE STEP BACK

The U.S. and many world market indices were looking at modest gains until they ran headlong into the month of June, when a variety of concerns came together to drive prices lower pretty much everywhere in the world. If you look at the MSCI Developed Markets report, you see the column representing the month of June showing basically a vertical line of red numbers in North America, Europe, Asia and Africa. But the losses of the second quarter were generally not enough to overcome the gains of the first three months of the year, so many indices are still ahead for the first six months of 2011.

In the U.S., the Wilshire 5000 was up 1.71% for the two months heading into the June swoon, and it seemed as if we would experience another quarter of modestly positive returns. Instead, the index dropped 2.63% during the month, finishing down 1.05% for the three months ending June 30. Even so, the broadest indicator of U.S. stock activity is up 4.90% for the first half of the year. The comparable Russell 3000 index of U.S. stocks fell an almost imperceptible 0.03% during the second quarter, finishing the first half of the year up 6.35%.

The Wilshire U.S. Large Cap index was down 0.90% for the second quarter; up 4.95% for the first half of 2011. The Russell 1000 large cap index was essentially flat, rising just 0.12% for the second quarter; it finished the first half of the year up 6.37%. The S&P 500 fell 0.39% for the quarter, but is up 5.01% so far this year. Among the sectors, the biggest losers were financial services companies (down an aggregate 6.27% for the second quarter of 2011) and energy stocks (down 5.07%). Publicly-traded health care companies were up an aggregate 7.29% and utilities rose 5.01%.

The Wilshire U.S. Mid-Cap index fell 0.86% for the second quarter, but is still up 8.70% for the year. The Russell Midcap index was up 0.42% for the second quarter; up 8.08% for the first six months of 2011.



The Wilshire U.S. Small Cap index declined 2.01% during the second quarter; but is up 6.31% for the year. The comparable Russell 2000 fell 1.61% in the second quarter; it was up 6.21% for the first half of the year.

The technology-heavy NASDAQ Composite Index was down 0.59% in the second quarter, but is up 3.30% so far this year.

Looking abroad, the MSCI EAFE index, which tracks a basket of developed-economy indices, was up 0.33% for the second quarter, up 3.00% for the year so far. There are always lessons in the returns; the MSCI Europe index was up 0.78% for the quarter, and is up 6.71% in the first half of the year, when many analysts were betting on a decline due to the widely-publicized debt woes in Greece, and less dire sovereign debt issues in Ireland, Portugal and Spain. The EAFE Emerging Markets Index, which measures the overall performance of less-developed nations, was down 2.11% for the second quarter, down 0.45% for the first half of the year.

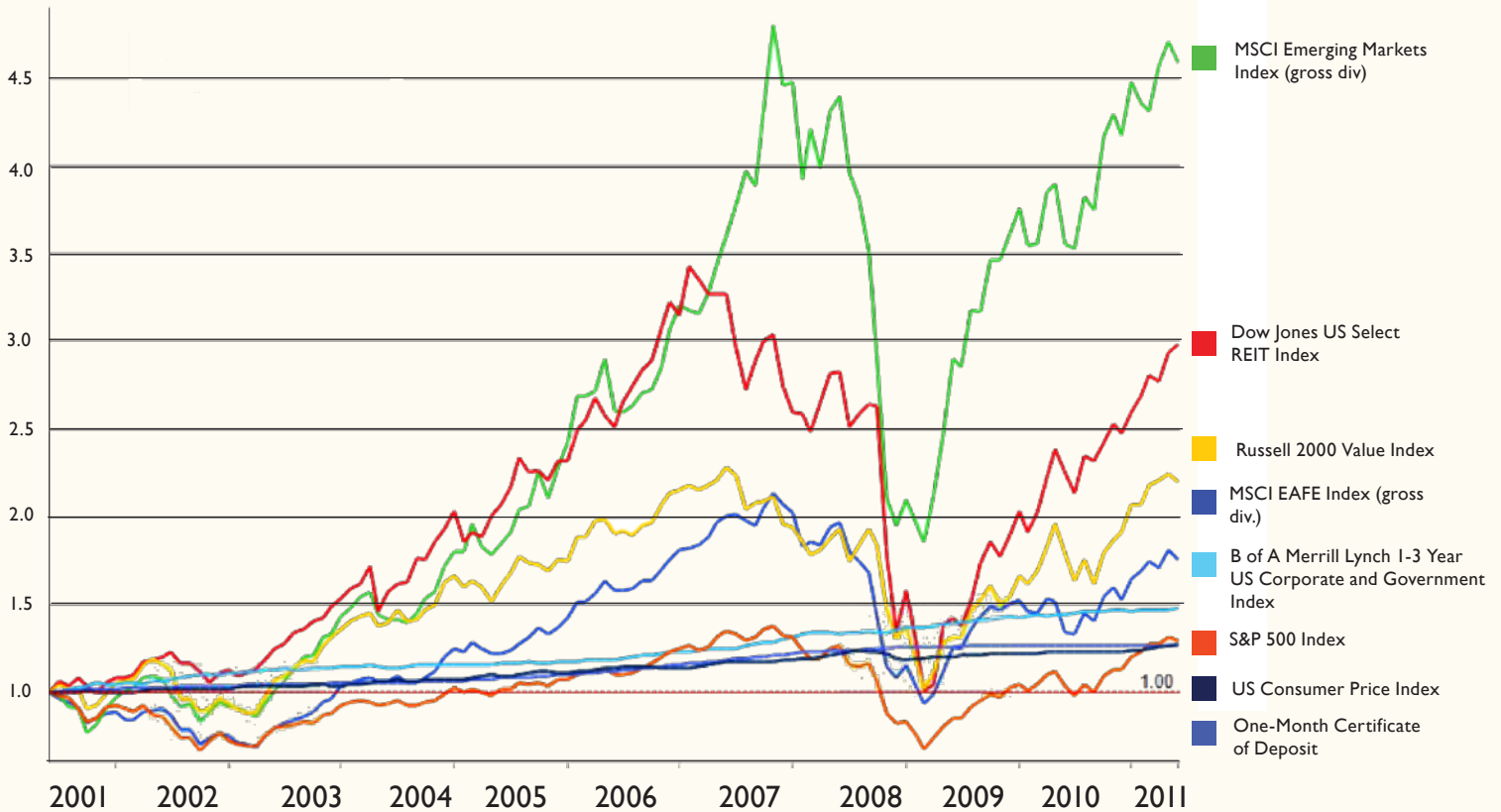
Among the notable countries, England's FTSE 100 index fell 1.07% for the first quarter; down 1.13% for first six months of 2011, while Germany's DAX index rose 2.74% for the second quarter; up 5.53% for the six months ending June 30. Japan's Nikkei average is up 1.11% in the second quarter, but in the first half of the year it has lost 5.6% overall. Chinese shares fell 6.92% on the Shanghai stock exchange; down 3.18% over the past six months. The Hong Kong Hang Seng index fell a similar 5.90% in the second quarter, and has so far posted a 4.43% loss for the year. India's Mumbai Sensex index was down 2.96% in the first three months of the year, down 8.34% in the first half of 2011, while Brazil's Bovespa Stock Index was one of the biggest losers internationally, down 9.91% for the second quarter; down 10.80% for the year so far.

In real estate, the Wilshire REIT index rose 3.64% for the second quarter of 2011, and is now up 10.62% for the year.

Bond yields continue to scrape along the floor; you can get a 0.02% yield on 3-month Treasuries currently, 0.10% on 6-month government bonds, and the two-year (0.45%), three-year (0.79%) and 5-year (1.75%) are not dramatically higher. The benchmark 30-year Treasury is currently yielding 4.36% a year. The Bloomberg web site shows 1-year muni bonds yielding an average of 0.211%; if you go out to ten year maturities, you can get an average yield of 2.729%.

## Growth of Wealth

Monthly: 06/2001-05/2011; Default Currency: USD



See Standardized Performance Data & Disclosures.

Selection of funds, indices and time periods presented chosen by client's advisor. Indices are not available for direct investment and performance does not reflect expenses of an actual portfolio. Past performance is not a guarantee of future results. Graph represents a hypothetical investment of \$1. Performance includes reinvestment of dividends and capital gains.

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Where do we go from here? The U.S. Bureau of Economic Analysis reports that America's economy--the gross domestic product (GDP)--rose 1.9% in the first quarter of 2011, which is significantly less robust than the 3.1% growth rate reported for the fourth quarter of 2010. If you've taken a trip to the gas pump, you are probably not surprised that the inflation rate reached 3.9% in the first quarter.

As you've no doubt read elsewhere, we are experiencing an unusual recovery from an unusual recession; in past economic downturns, the economy has come roaring back during the recovery, but today we are dealing with a more deliberate climb out of the hole. A quarterly



survey by the Associated Press suggests that the U.S. economic recovery will be slow and deep, held back by shoppers reluctant to spend and employers hesitant to hire. A poll of 42 economists has concluded that economic growth will probably stay below 3% for the rest of this year and early next year, and their crystal balls say that the U.S. unemployment rate will end the year about where it is now: between 9.0% and 9.5%. GDP growth would have to reach 5% for a full year to drive the unemployment rate down by one percentage point; 125,000 jobs must be added each month just to keep up with population growth. In May, the latest month where we have statistics, 54,000 net jobs were added, down from 194,000 in March and 232,000 in April.

The other headline-grabbing issue is housing. A series of charts created by the web site NumberNomics.com makes clear that existing home sales, new home sales, and median new home prices have all been essentially flat since January of 2009. But with interest rates at record lows, a new house is far more affordable today than it was in 2007; the site notes that the cost of purchasing a home is now actually lower in many sections of the country than what it costs to rent. Distressed sales represented 31% of total sales in May, down from 37% in April--which is progress of sorts.

None of this is bad news for investors, who prefer the recovery to continue, slow or otherwise. But the rocky month of June, which started with six straight days of losses in the U.S. markets, is further evidence that even positive growth and positive returns don't guarantee a smooth ride. The returns of the first half of the year have come with a certain share of anxiety, but it may be helpful to remember that the great returns of 2009 came at a time when many investors were living in a state of fear bordering on terror. Let's count our blessings; the mild reversal of the past three months wasn't enough to offset the gains in the first quarter of the year for most of the elements in a diversified investment portfolio.

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