

## Market Update – July 15, 2010

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It seems like the market has been much like the weather recently...too hot some places and definitely cold and dreary other places!

**The quarter in brief:** The second quarter of 2010 brought a significant correction in the hopeful bull market along with questions about the pace and strength of a global economic recovery. Few analysts were seeing a bear market ahead, but stocks *did* retreat – 2Q 2010 was the first down quarter for stocks since 1Q 2009, with the S&P 500 losing 11.86%.<sup>(cnbc.com)</sup> At the end of this quarter, we saw new concerns emerge about the real estate market, a bill poised to become law that would bring significant reform to the financial world and worries about foreign economies that stole the headlines – day in and day out. Sigh.

On the U.S. front, consumer spending (the ultimate driver behind any U.S. economic recovery) increased by 0.2% in May after a flat April, while consumer prices dropped slightly.<sup>(bea.gov)</sup> Unemployment continued to be a concern as all those diligent census workers finished up and many job seekers simply stopped looking for work.

The housing market was put to the test as the federal tax credits set to expire. According to the Commerce Department, the month-to-month pace of new home sales went from +26.9% (March) to +14.8% (April) to a record low drop of -32.7% (May). Correspondingly, pending home sales fell 30.0% for May. Existing home sales were up 8.0% for April, but down 2.2% for May. Fortunately, in early July President Obama put the tax credits back in place through September 30 this year.

The global picture also provided stormy weather. After years of not exactly minding the store, several European countries were looking at massive sovereign debt problems. When the crisis went full-blown in the media in May, Greece, Ireland, Italy, Portugal and Spain held debts ranging from \$236 billion to \$1.4 trillion – and not only that, these countries owed tens of billions worth of debts to each other.<sup>(nytimes.com)</sup> An austerity plan and a bailout was rolled out, which the healthier economies of the EU (notably Germany) had trouble stomaching. As the quarter ended, the sense was that a massive credit and banking crisis had been averted ... at least for the short run. On the Asian markets, growth continued to slow.

The commodities market continued to steal headlines with the Dollar up, oil down, natural gas and gold up, while copper fell.

Here's the snapshot:

% Change	2Q 2010	1Q 2010	Y-T-D
<b>DJIA</b>	<b>-9.97</b>	<b>+4.11</b>	<b>-6.27</b>
<b>NASDAQ</b>	<b>-12.04</b>	<b>+5.68</b>	<b>-7.05</b>
<b>S&amp;P 500</b>	<b>-11.86</b>	<b>+4.87</b>	<b>-7.57</b>

(Source: CNBC.com, ustreas.gov, 7/1/10)

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

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Looking Forward: We think consumer confidence will become the name of the game. All eyes will be on employment, home sales and the sense of growth of the economy. July may be the most important month of 2010 on Wall Street as corporate earnings are announced. It will take solid revenue growth to squelch fears of a double-dip recession. According to the Wall Street Journal, it will be most important what companies say or don't say about the prospects for the rest of year and that "For now, saying things aren't getting worse may be good enough."

It's certainly no secret to anyone that the financial markets, political markets and world markets have been very challenging for a decade or more. This is not the decades of the 1980s and 1990s where for the most part it didn't matter what we bought – stocks, real estate, whatever.....it was all good. Times such as these require thought, strategy and discipline.....and a little nudge of common sense from a Swedish proverb, "God gives every bird a worm, but he does not throw it into the nest." We will continue to work with you to help you achieve your financial goals in all markets. We are most grateful for your confidence in our work with you.

Something new - for a little extra financial insight, you can catch us on the television show San Diego Living most Wednesday mornings. That's Channel 6 locally from 9 to 10 a.m.

It's hard to believe the year is already half over. If you've been thinking about a Roth conversion, required minimum distributions, or just revisiting the overall strategy, please call us to arrange for an appointment.

Happy Summer!

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