Economic & Market Review

~ July 2012 Investment Newsletter ~

Steven W. Lieberman, MBA, CFP® Summit Financial Resources, Inc. (973) 285-3637 slieberman@sfr1.com

Monthly Summary

The month of July was a stellar example of the old adage that the markets climb the wall of worry. Despite global economic data that was nearly universally poor, all major asset classes delivered gains during the month. U.S. growth has slowed, the labor market is in the doldrums, and manufacturing has contracted for two consecutive months. Corporate profit warnings in July have also taken third quarter S&P 500 earnings growth expectations into negative territory. The Euro zone unemployment rate hit a record of 11.5% in June and the region's manufacturing activity is in a steep decline. The European debt crisis deteriorated with Greece, yet again, failing to meet the terms of its bailout agreement and Spanish yields spiking mid-month to over 7.5%. Germany and the IMF have lost patience with Greece, and future funding as well as Greece's membership in the euro zone are highly uncertain. China reported its slowest growth in three years, India recorded its weakest performance since 2004, and Brazil has all but stalled. Clearly, the data set in July was not favorable.

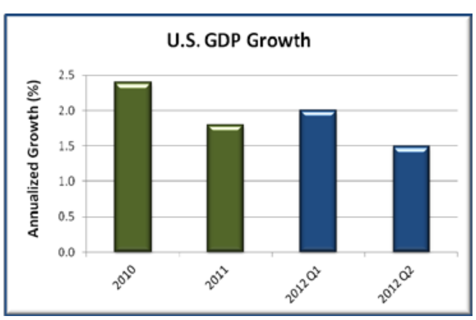
Globally, central bankers were the knights in shining armor in July. Absent their actions throughout the month, investment results might have been more in-line with what one might expect based on the data. The party kicked off July 5th with a European Central Bank interest rate cut to a historic low of 0.75%. That same day, China cut its main interest rate for the second time in a month, and the Bank of England announced another round of quantitative easing. Brazil, planning a consistent string of 0.5% rate cuts in the future, cut days later for a sixth time. Among others, Denmark, South Korea, South Africa, and Taiwan have all cut rates. The month's final coup de grâce, however, came on July 26th when Mario Draghi, the president of the ECB, promised the bank is ready to do "whatever it takes to preserve the euro." Failure of Dr. Draghi and company to walk that talk, which may not even be structurally or politically possible, would have negative implications for investment markets.

July's Economic Releases

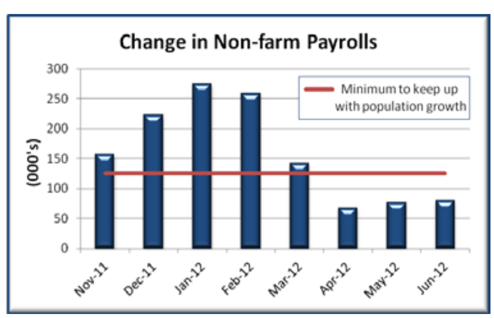
General	Prior	Current
GDP growth	2.0% (Q1)	1.5% (Q2)
Trade balance	-$50.6 B (Apr)	-$48.7 B (May)

Employment	Prior	Current
Initial jobless claims	358,000	365,000
Continuing claims	3.5 MM	3.3 MM
Change in nonfarm payrolls	77,000 (May)	80,000 (Jun)
Unemployment rate	8.2% (May)	8.2% (Jun)
Average weekly hours	34.4 (May)	34.5 (Jun)

Consumer	Prior	Current
Consumer confidence index (Conf. Board)	62.7 (Jun)	65.9 (Jul)
Retail sales growth (YoY)	7.0% (May)	3.6% (Jun)
Change in consumer credit	$9.95 B (Apr)	$17.12 B (May)



Data Source: U.S. Department of Commerce

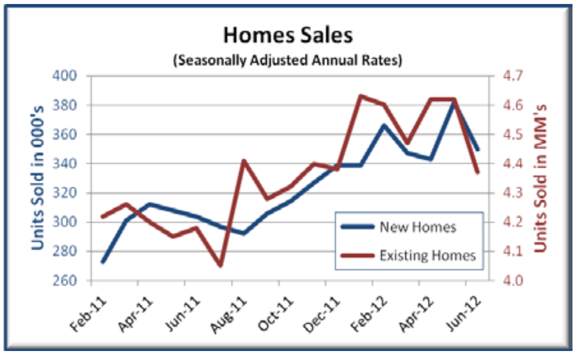


Data Source: U.S. Department of Labor

Manufacturing & Service	Prior	Current
ISM manufacturing index	49.7 (Jun)	49.8 (Jul)
ISM non-manufacturing index	53.7 (May)	52.1 (Jun)
Durable goods orders growth	1.6% (May)	1.6% (Jun)
Industrial production growth	-0.2% (May)	0.4% (Jun)
Capacity utilization	78.7% (May)	78.9% (Jun)

Real Estate	Prior	Current
New home sales	382,000 (May)	350,000 (Jun)
Existing home sales	4.6 MM (Mar)	4.4 MM (Apr)
Case-Shiller home price index (YoY)	-1.8% (Apr)	-0.7% (May)

Inflation	Prior	Current
Consumer price index/Core (YoY growth)	1.7%/2.3% (May)	1.7%/2.2% (Jun)
Producer price index/Core (YoY growth)	0.7%/2.7% (May)	0.7%/2.6% (Jun)



Data Source: U.S. Dep't of Commerce & Nat' Assoc. of Realtors

Data Source: U.S. Department of the Treasury

Market Returns

All major asset classes rose in July and are positive for the year. The S&P 500 index gained 1.4% for the month and is now up 11.0% for the year. Developed international equity markets, as defined by the MSCI EAFE index, were up 1.1% in July and the MSCI Emerging Markets index rose 2.0%. Year-to-date, international developed and emerging markets are up 4.1% and 6.0%, respectively.

In the fixed income market, the Barclays US Aggregate index gained 1.4% for the month and the yield on the 10-year U.S. Treasury bond fell 16 basis points to end with a yield of 1.51%. For the year, the Barclays U.S. Aggregate is up 3.8%. Credit spreads tightened modestly during the month with high yield spreads ending at the 15 year average and the Barclays High Yield index gaining 1.9% in the process. High yield bonds have gained 9.3% so far this year. International bonds were up 1.0% for the month and 1.7% for the year.

The Dow Jones UBS Commodity index had strong gains of 6.5% in July, moving the category back into the black for the year after a very tough second quarter. The Dow Jones U.S. Real Estate index rose 2.2% in July.