

The Advantage Advisor

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June, 2011

Market Commentary:

The US financial markets have faced some pretty serious headwinds in 2011, and the impact is starting to become more obvious. The earthquake and tsunami in Japan triggered a nuclear plant disaster and equipment parts shortage that has been felt worldwide. On our own continent we have been fighting with severe weather and flooding that has severely disrupted shipping traffic. And all the while, gasoline prices have been slowly but steadily marching upward, putting even more of a pinch on consumer spending.

Yet, with all of these problems, none of them inconsequential, the financial markets are still higher for the year. In fact, as you can see in the chart below, the NASDAQ Composite Index even managed to break above its 2007 high during May. While it has since drifted back from that level, it is an amazing feat that in only a little over two years that index has managed to recover from the bottom of the worst bear market since the Great Depression! And possibly even more important is the fact that it is typically technology stocks that lead the way out of recessions and back toward economic growth.

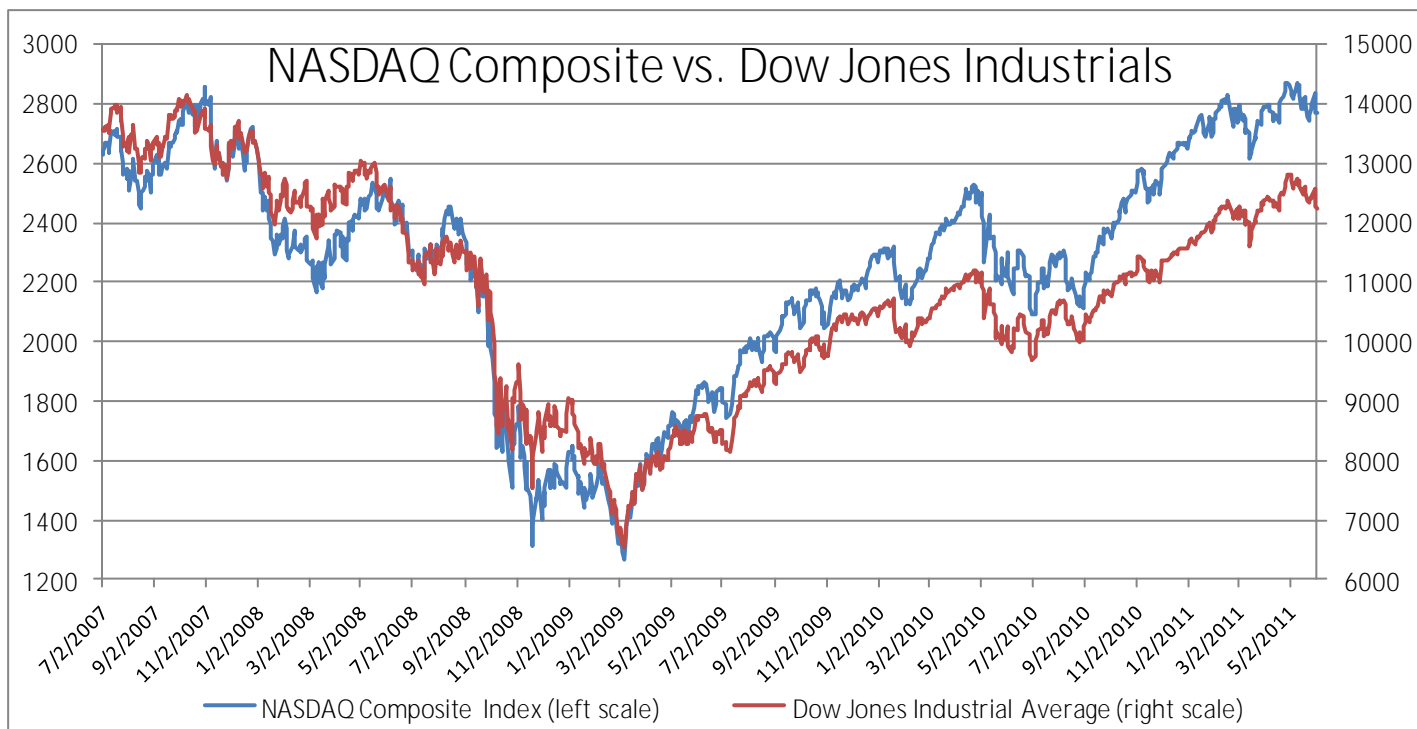
The other major stock indices have not quite hit this milestone as yet. As of May 31, the Dow Jones Industrial average was still 11% below its 2007 high and the S&P-500 Stock Index was still 14% below that same point. Even though they

Market Statistics for 2011 (YTD)

| Market Index | Closing Price | % Change |
|-----------------------------------|---------------|----------|
| Dow Jones Industrial Average | 12,570 | +8.6% |
| S&P-500 Stock Index | 1,345 | +7.0% |
| Russell 2000 Stock Index | 848 | +8.3% |
| Barclay U.S. Aggregate Bond Index | 107 | +2.8% |
| Dow Jones World Stock Index | 267 | +5.3% |
| Nasdaq Composite Index | 2,835 | +6.9% |

are lagging a bit, their own respective recoveries from the 2009 bottom are every bit as remarkable as that of the NASDAQ.

It is also worth noting that over the past several months all of these stock indices have moved into a choppy, sideways pattern which is not at all unusual as we enter the summer months. With all of the headwinds that we have been facing, both domestically and globally, we expect to see a pickup in the volatility of stocks and a continued sideways price movement as we head through the summer months. We have come a very long way in a very short time by historical standards. Investors need to catch their breath before we can move ahead from here. We expect to see the S&P-500 trade in a range between as low as 1250 to as high as 1350 for the next several months. Then, as things get back on their feet once again, we expect the advance to continue forward.



The Economic Picture

There is little doubt that the pace of our economic recovery has slowed over the last quarter. Probably the single most important factor in this regard is that of consumer confidence. Consumer confidence is being pushed back on two main fronts: Rising energy prices, and slowing employment growth.

Energy Impact:

The cost of gasoline in particular seems to have a tremendous impact on consumer sentiment, probably because it has such a visible and immediate impact on people's wallets. Since the beginning of the year, the price of crude oil has risen from just over \$90 to a peak price of just under \$115 per barrel. That pushed the price of gasoline from a national average of \$3.00 to a recent high of \$3.91 per gallon. That increase has produced a chilling effect on consumer purchases as well as on manufacturing and shipping. Since that high point, we have seen gasoline prices pulling back, down to a current national average of \$3.74 per gallon. That is better, but still not enough of an improvement to take the pressure off of consumer's minds.

Rising energy prices act on the economy like a tax on growth. Because of higher energy prices, every additional unit of any good that is produced costs more, and for companies to stay in business they must be able to sell their goods at a profit. If businesses cannot pass the increased costs of production on to the buyers of their products, as is the present case, then they

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Current Economic Position:
Stage 2 - Early Growth

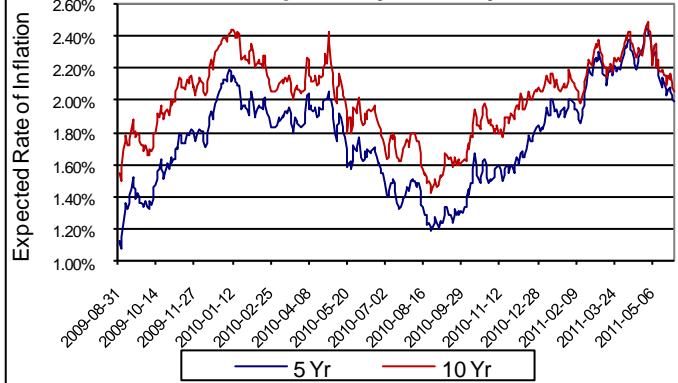
Economic Indicators

| | Latest | Prior |
|---------------------------|---------|-------|
| Growth | | |
| GDP | +1.8% ↑ | +3.1% |
| Productivity | +1.8% ↑ | +2.9% |
| Employment Cost Index | +0.6% | +0.4% |
| Capacity Utilization | 76.9% | 77.0% |
| Inflation | | |
| Consumer Price Index | +0.4% | +0.5% |
| PCE Deflator | +0.3% | +0.4% |
| Implicit Price Deflator | +1.9% | +0.3% |
| Sentiment | | |
| Consumer Confidence Index | 60.8 | 66.0 |
| Unemployment Rate | +9.1% | +9.0% |
| Personal Income | +0.4% | +0.4% |

↑=revised up, ↓=revised down

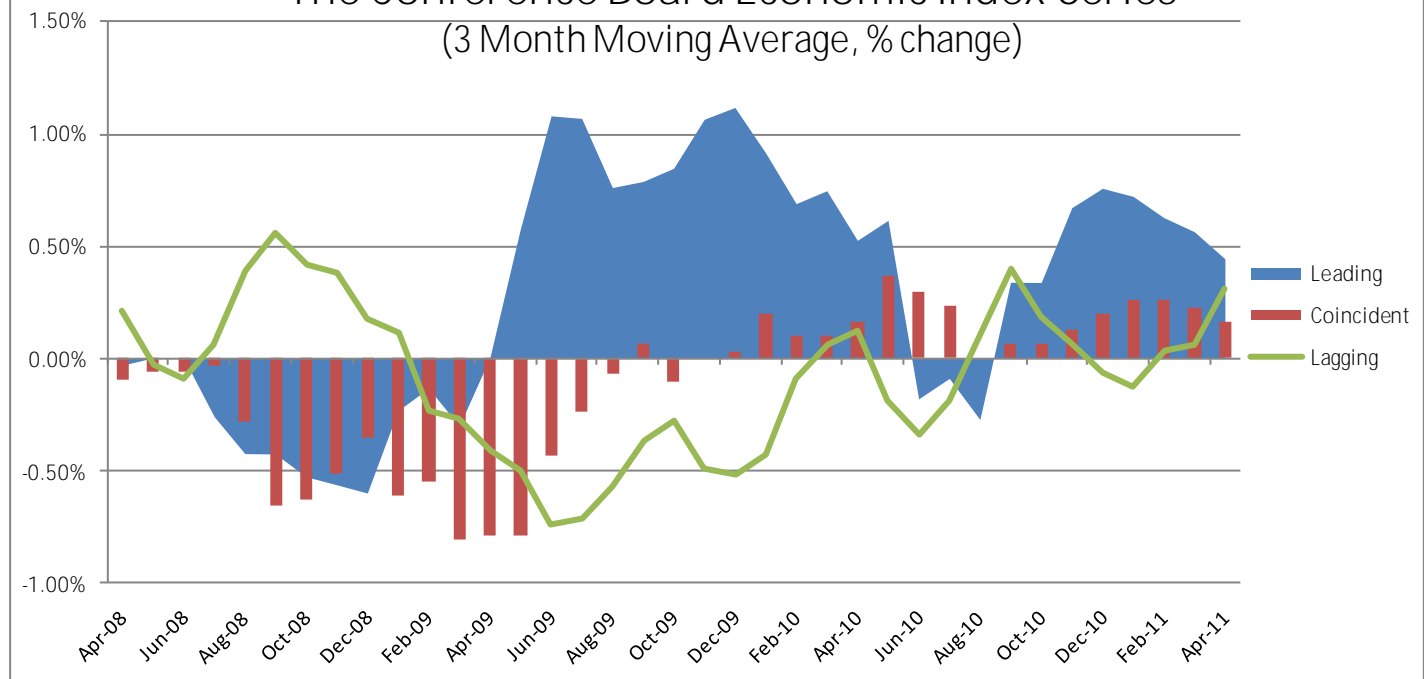
Source: Moody's Economy.com

TIPS Spread by Maturity



Source: US Federal Reserve

The Conference Board Economic Index Series (3 Month Moving Average, % change)



Source: The Conference Board

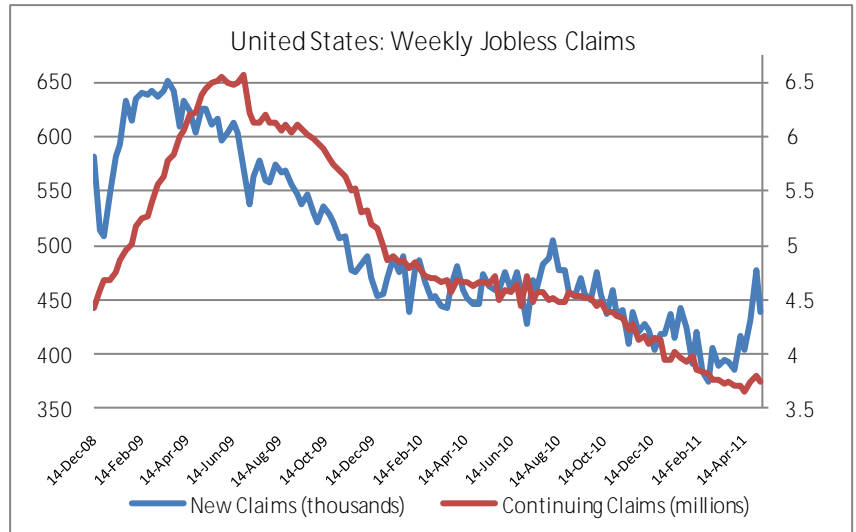
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will simply produce fewer units. We have seen exactly this effect in a current slowdown in manufacturing activity across the country.

Employment Impact:

The second major front that is affecting consumer confidence is that of employment. Up until about mid-April, we had been seeing some very positive results on the jobs front. As you can see from the two charts on this page, weekly unemployment claims had fallen to under 400,000 (which is consistent with net job growth), and growth in private sector jobs was consistently building. Then, without warning, weekly unemployment claims spiked back up above the 400,000 level and increases in private sector payrolls slowed to well below expectations.

It is important to note that there are many temporary reasons for this kind of volatility in the employment numbers. The effects of temporary plant shutdowns by Japanese auto manufacturers who have factories here in the US have a large impact on these reports. In addition, the flooding in the Midwest has caused major supplies disruptions, which have caused the idling of other manufacturers. These kinds of problems have a tendency to be more temporary in nature, and may well work themselves out over the summer months. It is also important to note that net job growth has remained positive, and that since February, 2010 more than 2.1 million private



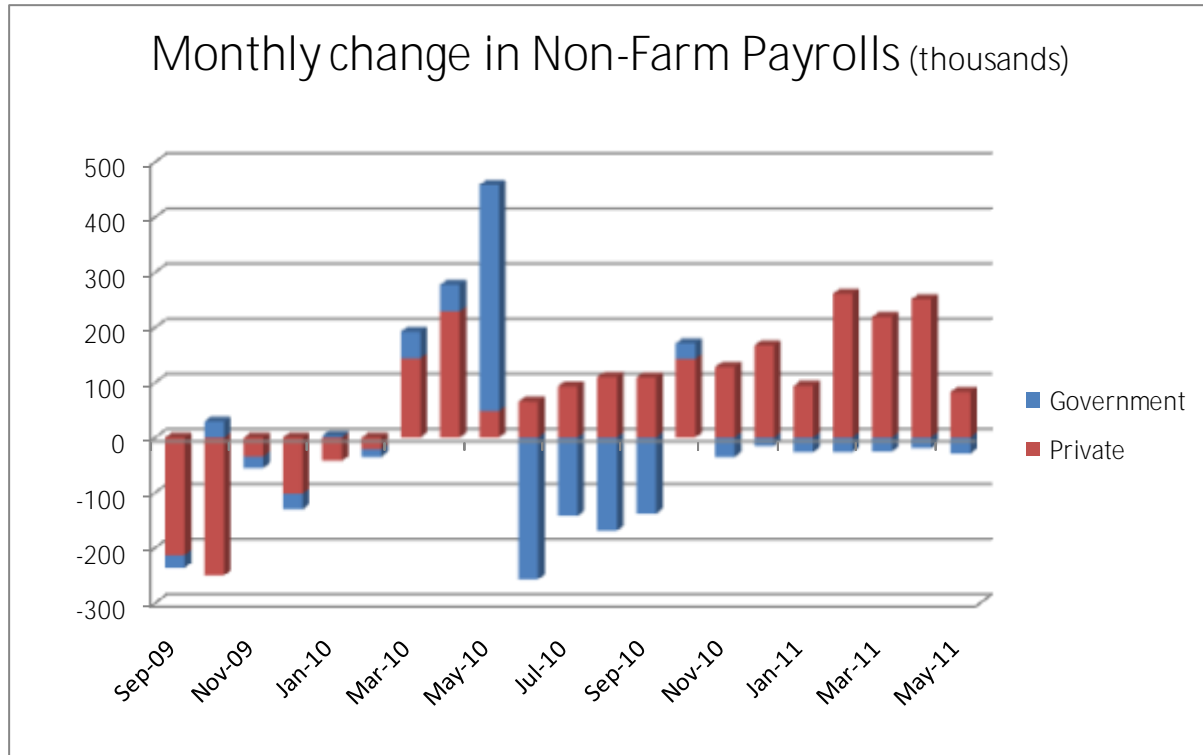
Source: Employment and Training Admin.

sector jobs have been created. Even so, this slowdown does get our attention and we will be watching the situation very closely.

Economic Growth:

Because of these two major issues, GDP growth in the US slowed appreciably in the 1st quarter to a 1.8% annual rate—simply not enough to provide a sustainable growth trajectory. We believe that many of the reasons for this slowdown are temporary in nature, as we just discussed. As such, we do expect a slowdown over the summer months simply because it takes time to overcome these types of issues. But

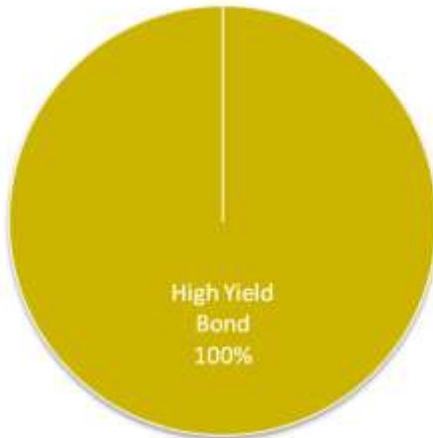
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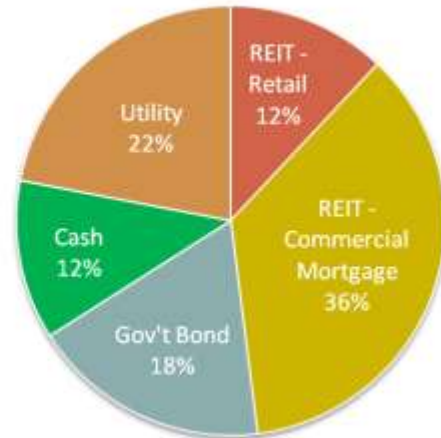
Source for data: Bureau of Labor Statistics

Current Investment Management Strategy Target Allocations

Bond Strategy



Current Income Strategy



Stock Strategy



Strategic Allocation Strategy



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not all of the news is bad: While the broad economic indicator series shown on page 2 has slowed down, all three indicators remain on the positive side. In addition, inflation expectations have pulled back to below 2%, and core inflation, the Fed's preferred measure, remains well below the implied target range. This will allow the Fed to continue with its low interest rate policy. Those low interest rates are providing important support in helping us to get through the soft patch that we are presently experiencing.

Investment Strategy:

Our feeling at this point is that we are not in danger of an actual 'double-dip' recession, but rather that the time-

frame to a full recovery has been extended by at least several more months. As such we have held fast to our current investment positions within each of our strategies, and have plans in place to take action should the situation change. Should the markets begin to soften further, we are prepared to take some profits off the table and wait for a solid re-entry point. If things do stabilize from here, we are ready to become a little more aggressive and take advantage of the recent pullback in prices. Either way, we are watching closely!

Please note: A current copy of Advantage Investing's form ADV (registration statement) is available at no cost upon request. Please contact us at the address or phone number below if you would like to request a copy for your own records.