

Boucher Financial Planning Services

Frank Boucher, CEBS, CFP
 1900 Campus Commons Drive
 Suite 100
 Reston, VA 20191
 703-391-8466
 fboucher@verizon.net
 www.boucherplanning.com



Market Week: January 17, 2012

The Markets

Two in a row: Helped along by benign economic reports, domestic equities built on last week's gains. However, market leadership migrated to the Nasdaq and small-cap Russell 2000. Friday's after-hours release of Standard and Poor's European downgrades prevented the news from having much impact last week, though rumors weighed on markets during the week's final hours.

Market/Index	2011 Close	Prior Week	As of 1/13	Week Change	YTD Change*
DJIA	12217.56	12359.92	12422.06	.50%	1.67%
Nasdaq	2605.15	2674.22	2710.67	1.36%	4.05%
S&P 500	1257.60	1277.81	1289.09	.88%	2.50%
Russell 2000	740.92	749.71	764.20	1.93%	3.14%
Global Dow	1801.60	1812.76	1841.21	1.57%	2.20%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	1.89%	1.92%	1.89%	-3 bps	0 bps

*Equities data reflect price changes, not total return.

Last Week's Headlines

- Standard and Poor's downgraded the AAA bond ratings of both France and Austria to AA+. It also cut Spain's rating to A and Italy's to BBB+, and reduced Portugal's rating to BB (junk bond status), all of which are likely to increase the cost of borrowing for those countries. Because France is Europe's second-largest economy and a pillar of the European Financial Stability Fund, the downgrades raised concerns about the impact on the fund's bailout capabilities.
- Meanwhile, the German economy contracted by 0.25% during the fourth quarter, and the 3% growth rate for all of 2011 was lower than the previous year's. Both the European Central Bank and the Bank of England kept their benchmark interest rates at 1% and 0.5%, respectively.
- Falling exports and higher foreign oil imports helped increase the U.S. trade deficit by more than 10% to \$47.8 billion in November, the Commerce Department said. That's the largest increase since May.
- The Commerce Department also reported that retail sales rose 0.1% in December, up 6.5% from last December. However, not counting a 1.5% increase in auto sales, retail sales were down 0.2%.
- The Federal Reserve turned over to the U.S. Treasury \$76.9 billion in net income, derived mostly from interest earned in 2011 from purchases of U.S. Treasuries and mortgage-backed securities bought as part of its quantitative easing programs. That's slightly less than the previous year's \$79.8 billion, but still well above 2009's \$47.4 billion.
- The Fed's "beige book" report said economic conditions increased at a "modest to moderate pace" during late November and December. That was an improvement from earlier in the year, and was helped along by retail sales that beat last year's and strong auto sales.

Eye on the Week Ahead

Though the reaction to the European downgrades will likely steal the spotlight, a data-heavy week also will include inflation and manufacturing data.

Key dates and data releases: Empire State manufacturing survey (1/17); wholesale inflation, industrial production, international capital flows (1/18); consumer inflation, housing starts, Philadelphia Fed manufacturing survey, weekly new jobless claims (1/19); home resales, options expirations (1/20).

Data sources: Includes data provided by Brounes & Associates. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. Market indexes listed are unmanaged and are not available for direct investment.

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