



# ALL STAR FINANCIAL

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## Weekly Market Wrap May 10, 2010

### Review - Week Ending 05/07/2010

Wow! Volatility returned to the market last week in a big way. Thursday the market came unglued during the afternoon with a near 10% swing in the Dow Jones within an hour's time. Reasons for the "Flash Crash" are still being investigated, with several theories floating but suffice it to say volatility is back-further evidenced by Monday's huge rally on the European plan to attack region's debt crisis.

### Commentary/Highlights

- **Jobs Are Being Created Again in the U.S.** - Lost in last week's wild trading was the surprising strength of Friday's jobs report. The U.S. economy added 290K jobs in April, and March's payroll gains were revised up to 230K from 162K. If the economy can begin to create 250K jobs a month, then eventually progress will be made toward gradually bringing down the unemployment rate. So why then did the unemployment rate go up? Because 805,000 unemployed joined the labor force participation, sensing improved hiring conditions. Capital Economics call the report a "strong signal that the economic recovery is becoming self-sustaining. In short, it could well be a game changer."
- **Euro Debt Crisis:** Lingering concerns over the European debt crisis and its potential to spread from Greece to other nations was the catalyst for last week's selling. The market has been expressing its frustration with Europe's slow and marginal response to the crisis. This all changed over the weekend, or on Monday morning to be exact. Overnight European Union nations and the IMF put in place a \$957 billion package to support the debt of European nations under stress. The package is combination of loan and guaranty supports and finally mirrors the size of the U.S. and China economic recovery packages put in place last year.
- **Thursday's Flash Crash:** Perhaps more troubling than last Thursday's volatility was the fact that we are still searching for a good explanation for its cause. Regulators, the SEC and CFTC, as well as the major exchanges are still studying the most volatile half hour ever in Wall Street's history. Theories range from "fat-fingered" trades to lack of coordination among electronic exchange systems. Procter & Gamble, a blue chip, fell 35% at one time during the day in heavy volume. Trading was 3.5x times normal volume in some major indexes. The SEC has summoned the two largest exchanges to Washington, D.C. to discuss on Monday. Expect the investigation to lead to more trading safeguards in pending financial reforms and perhaps more "circuit breaker" protections.
- **Economic Update:** U. S. economic indicators generally showed more improvement last week. Personal income and construction spending both the ISM Manufacturing (60.4) and ISM Service (55.4) remained firmly in expansion phase. Jobless claims fell slightly, productivity was up 3.6%, and the payroll gains on Friday capped the week.
- **Government Spending is Declining:** JP Morgan notes that overall government spending has actually decreased 0.2% over the last three quarters, primarily due to state and local government spending cuts. The interest burden on the Federal deficit is actually lower this year as well, primarily due to interest rates staying low.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Barclays Aggregate Bond	+0.45%	+1.49%	+3.30%
Barclays High Yield	-2.56%	-0.28%	+4.33%
Dow Jones Industrial	-5.67%	-4.16%	+0.46%
S&P 500 Index	-2.56%	-4.84%	+0.31%
Russell 3000	-6.77%	-4.76%	+0.90%
MSCI EAFE Index	-10.02%	-11.65%	-10.89%
MSCI EAFE Small Cap	-9.96%	-8.43%	-4.07%
NASDAQ Composite	-7.95%	-5.52%	-0.15%
Russell 2000	-8.86%	-3.70%	+4.82%