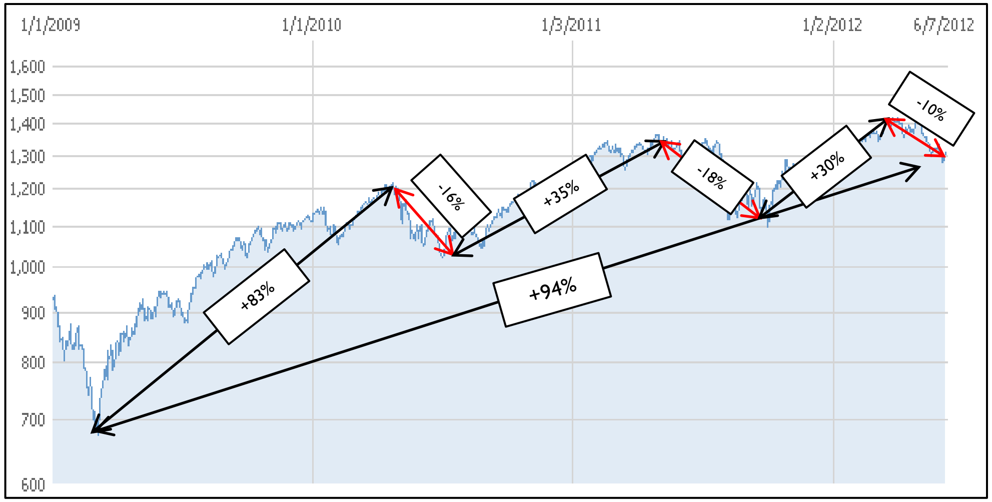
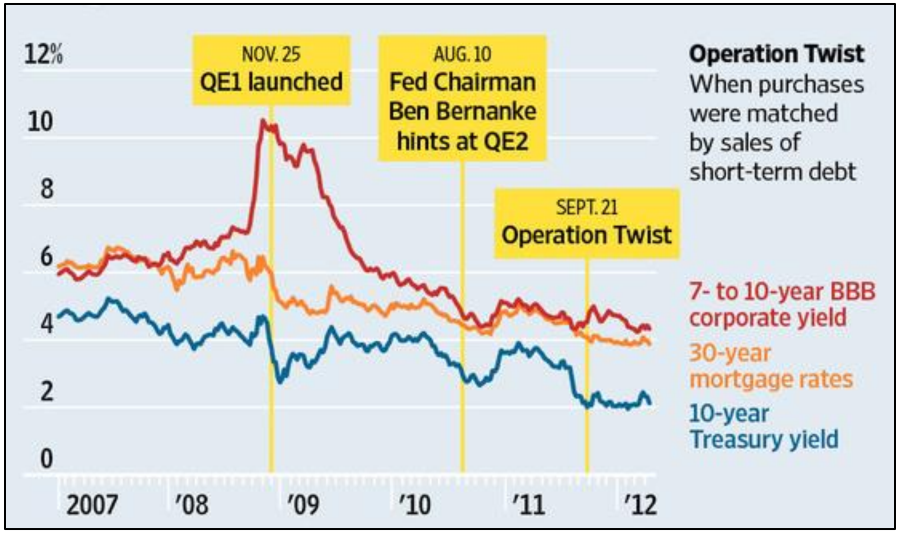
Market Recap

S&P 500 January 2009 to Present



Source: S&P; MSN Money

Quantitative Easing Effect on Bond Yields



Source: Bloomberg; WSJ

With the recent pressure on the market, it is easy to view the glass as half empty. However, if we are to consider a longer perspective, the market cycle continues to be decidedly upward. Since the March 2009 lows, the S&P 500 has advanced 94%. The climb has not been uninterrupted, but the declines have paled in comparison to the rallies. The periods of risk aversion have been driven by a variety of factors such as the situation in Europe, the threat of a hard landing in China, higher oil prices, and the U.S. debt downgrade. Although it was difficult to remain committed to the market during these periods of market decline, investors who stayed the course and did not panic have been richly rewarded.

After the Federal Reserve cut short-term interest rates to near zero in 2008, it turned to buying long-term Treasury debt and mortgages in order to push long-term rates still lower and provide additional support to the economy. The goal was to (1) signal that short-term rates would remain low for a long time, (2) drive long-term borrowing rates lower, encouraging spending, (3) chase investors from safe, lower-yielding securities into equities and other riskier assets, and (4) push the dollar lower, aiding exports. The current round of QE is set to expire at the end of June, prompting much debate of its merit and whether to continue the program. Despite more than $2 trillion of bond purchases, the economy remains on shaky ground with modest growth and 8.2% unemployment. Although the Fed cannot claim total credit, long-term rates have fallen (10-year Treasury yield is currently ~ 1.60%). There is also little debate that QE1 thawed frozen financial markets. Critics warn that the asset purchases could trigger inflation or a bubble in certain assets. Further, with rates already so low, the added benefits of another round of more asset buying may be too small to make much difference.

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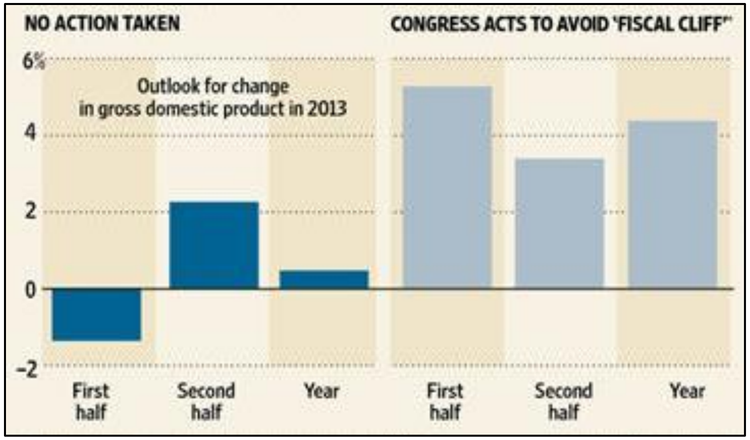
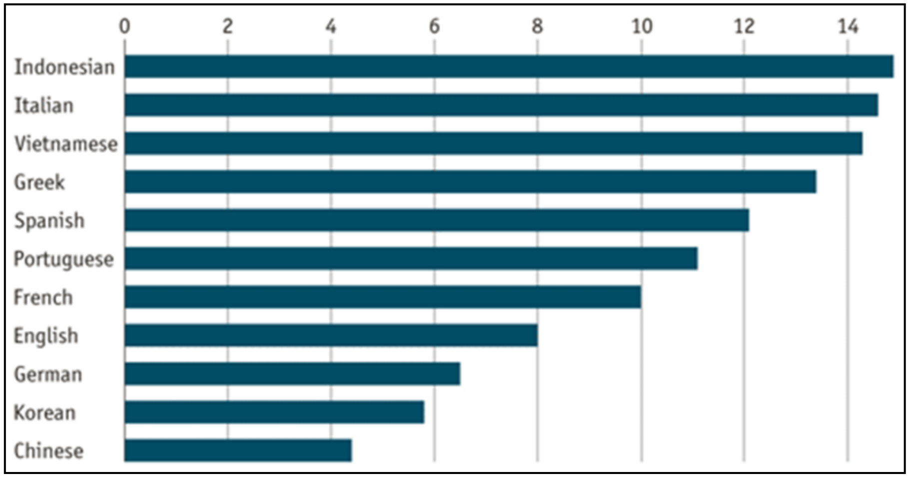
Recession Fears Due to Potential Fiscal Cliff



Source: Congressional Budget Office; WSJ

According to the CBO, the expiration of large Bush-era tax cuts in December and other tax increases, combined with large scheduled spending cuts, would likely cause the U.S. economy to fall into recession. In that event, the CBO projected the economy would contract at a 1.3% annual rate in the first six months of 2013. If the spending cuts and tax increases are canceled, the CBO estimated the economy would grow 4.4% in 2013. The conclusions have increased pressure on politicians to act. Nonetheless, Kent Conrad (Democrat, ND), a member of the key bipartisan "Gang of Six" Senators, said he doesn't expect the Gang to unveil a budget plan until after the election unless something changes that endangers the economy. Senator John Cornyn (Republican, TX) said that bipartisan efforts probably will go nowhere unless Obama urges lawmakers to reach a broad deal. A number of lawmakers are expressing skepticism about the likelihood of advancement of a "grand bargain" before the end of the year. Meanwhile, the fiscal clock continues to tick.

Percentage of Passwords Guessed Using Dictionary



Source: Cambridge University, The Economist

Cambridge University recently published a report analyzing the passwords chosen by almost 70 million anonymous Yahoo! users. The study reported the percent of successful cracked accounts after 1,000 attempts using a dictionary of common password choices routinely used by computer hackers. Despite the concerns with identity theft and internet hacking, many users still choose rather predictable passwords to protect themselves online. The findings showed surprisingly little variation in guessing difficulty. Every identifiable group of users generated a comparably-weak password distribution. Security motivations such as the registration of a payment card had no greater impact than demographic factors such as age and nationality. Even proactive efforts to influence users towards better password choices with graphical feedback made little difference.

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