

Summer 2011

“By sports announcers’ logic, the team that hits the locker room at halftime with the most momentum should dominate the second half, too. If so, the bulls have the upper hand, after a quick 5% pop in the stock indexes as they crossed the half-year mark. But we’ve seen the euphoria-to-despair cycle enough times to be wary of momentum claims. And much of the S&P 500’s year-to-date gain has come in recent days, while the index has essentially played between the 40-yard lines – a tight range between 1260 and 1360 – this year.” Barron’s Market July 4, 2011.

The U.S. economy continues to expand, but at a slower pace in recent months. Some of the slowdown was because of the temporary supply chain disruptions following the devastating earthquake, tsunami and nuclear crisis in Japan. In addition, consumers cut back spending on discretionary items in order to afford more expensive necessities after the rise in food and energy prices earlier this year. Fortunately, energy prices subsided late in the second quarter after Saudi Arabia said it would supply more oil and the International Energy Agency announced that it would coordinate the release of oil from global strategic petroleum reserves.

Looking at the markets, investor sentiment turned cautious in the second quarter because of concerns over the slowing economy and the European debt crisis. A flight to safety caused bond prices to increase at the same time that the stock market softened. In addition, concerns about the European economy weighed on the euro and supported the dollar.

Sentiment toward the dollar has been very negative this year with the Fed pumping liquidity into the economy through its second round of quantitative easing (QE2). However, policymakers stopped adding extra liquidity after QE2 ended in June, but the Fed has not announced plans to start draining liquidity yet. In other words, the Fed has taken its foot off the accelerator, but not stepped on the brakes. Anticipating an end to QE2, cautious investors turned to more defensive sectors in the stock market during the second quarter. At the same time in the credit markets, credit spreads started to widen as investors favored high-quality fixed income securities over lower-quality instruments.

Looking back, it is not unusual for the economy to cool off once the Federal Reserve stops providing stimulus. This midcycle slowdown usually occurs as the economy transitions from economic growth fueled by easy money policy to growth fueled by rising profits and job creation.

Additionally, in September you may notice some changes to your online access account. The online system is converting to a new platform and will prompt you to complete a re-enrollment process. If you need assistance or would like to set up online access, please do not hesitate to contact Karena Kase, Client Associate, at 208-333-1433.

Thank you for your continued trust and confidence. We appreciate the opportunity to provide guidance to your friends and family members as they encounter financial events in their lives. .