Webb
Investment Services, Inc.
An Investment Advisory Firm

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Recovery Remains Modest, But Rising Markets Cheer Investors

Dear «Salutation»:

U.S. financial markets ended their best quarter in the past decade as June drew to a close, but there is enough lingering uncertainty about the state of both the American and global economies to keep caution flags flying. A disappointing consumer confidence report – having improved in May, it dropped back as the quarter ended – underscored that idea. Most analysts expect a protracted economic recovery, although numerous reports tend to show "green shoots" as signs a revival is under way.

Recent market figures are impressive. For the second quarter, the Dow Jones Industrial Average (an unmanaged index of 30 widely held stocks) finished at 8,447.00, a gain of 11% from its close on March 31. The NASDAQ Composite (an unmanaged index of all common stocks listed on the NASDAQ National Stock Market) nearly doubled that, closing at 1,835.04 for a 20% gain for the quarter, and the S&P 500 (an unmanaged index of 500 widely held stocks) finished at 919.32 for a gain of 15% for the quarter.

The positive cast for indices loses some of its luster, however, if you look at the figures for the year. While the NASDAQ Composite is up a hefty 16.4% from its December 31 close, the Dow finished at minus 3.7% and the S&P 500 is up just 1.8% over its 2008 close.

Oil prices had a positive quarter, from a pricing standpoint. Having closed out on March 31 at under $50 per barrel, the price of crude was pushing $71 a barrel as the second quarter ended. Motorists in most parts of the country noticed gas prices edging up past the $2.50-per-gallon mark as spring turned into summer. Economists complain that rising fuel prices drains spending money from job-concerned, cash-strapped consumers.

The burgeoning U.S. savings rate – a global laughing stock in the middle of the consumer-driven bull market when it dipped below zero – reached 6.9% in May, according to the Federal Reserve's Bureau of Economic Analysis. That is the highest level in 15 years. While this altered consumer habit may be good for banks, increasing the deposits they hold, analysts say it has a negative aspect, because money saved could be spent for the goods and services that spur job and economic growth. After all, consumer spending accounts for roughly two-thirds of the nation's economic activity.

Another indication that the economy is still struggling may be the surge in bank failures. By the last day in June, 40 banks had been closed by the Federal Deposit Insurance Corporation (FDIC), a total already far exceeding the 25 closed in 2008 – not to mention

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that in 2007, only three banks failed. In addition to the banks, five credit unions have either closed or been placed into conservatorship so far this year. Accounts in such instances are insured up to $250,000 per account holder. The FDIC insures bank deposits while the National Credit Union Share Insurance Fund handles credit union accounts.

The housing market, the collapse of which triggered much of the economic malaise over the past 18 months, remains weak, although sales edged up in both April and May, according to the National Association of Realtors. Mortgage rates moved back over 5%, having dipped below that earlier in the year.

The grass isn't greener elsewhere. Britain's economy had its worst quarterly contraction in 50 years during the first three months of 2009, shrinking 2.4%. The eurozone (the 16 countries using the euro as currency) suffered a mild case of deflation as prices fell in June to an annualized rate of minus 0.1%, according to figures from the Eurostat Statistics Agency.

There have been, and are, attractive investment opportunities in recovering markets, even as experts dispute the likely timeframe of a recovery. Historically, of course, markets should recover, and investors who enjoy such recoveries have been those who while they are in the market for the long term, remain alert to the potential of different sectors and value of diverse financial instruments. Whether you simply have questions about the market or are determined to find new investment opportunities, please don't hesitate to call me.

Sincerely,

Laura Webb, CFP
President, Webb Investment Services, Inc

Investing involves risk, and investors may incur a profit or a loss. Past performance is not an indication of future results.