

NOVEMBER 2010 ECONOMIC REPORT

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Barry Glassman, CFP®, CFS
President



Domestic Equities: QE2 sleighbells, Election Results and Black Friday

November started off strong with the long anticipated Federal Reserve announcement that they would move forward with QE2 by purchasing an additional \$600 billion of Treasury securities and reinvesting another \$250 to \$300 billion of principal payments from the Fed's mortgage portfolio. The infusion felt like a steroid shot as risky assets, particularly equities and commodities, soared the day of and the day after QE2 was detailed.

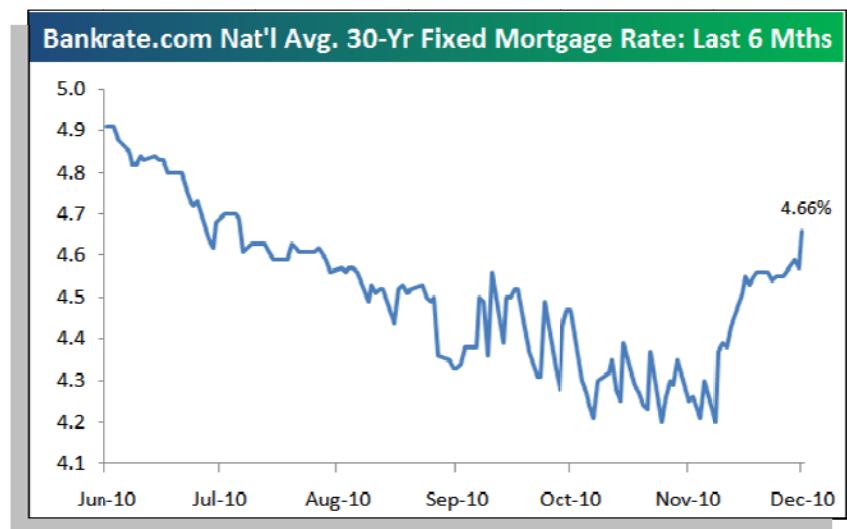
A Republican victory in the House brought additional encouragement for those looking for an extension of Bush-era tax cuts. The rally was short lived, however, as European debt fears re-emerged mid-November. Between robust sales on Black Friday and continued weak housing data, the S&P 500 finished the month flat.

Play It Again, Ben

This time around, the Fed announced it will focus its QE2 purchases on intermediate bonds (2 to 10 years) which resulted in a rise in long-term interest rates. 30-year fixed mortgage rates rose from 4.20% to 4.66% in less than three weeks, placing new pressure on an already fragile housing market.

Consumers, Cash & Cars

It appears as though the economic recovery has many investors looking for a rebound in consumer spending. Black Friday sales supported this thesis, with more people hitting the malls and the average shopper spending 6% more than they did last year. Retailers benefited, but it should be noted that consumer discretionary is not just retail. The sector contains auto, media, consumer durables (electronics, homebuilders, appliances) and consumer services (education, travel, leisure). Because corporate balance sheets are still laden with cash, capital investment spending is on the rise. The auto industry has been one of the beneficiaries of such spending, with many firms looking for fleet upgrades. Take GE. After GM's IPO, GE promised to purchase 25,000 electric vehicles by 2015: 12,000 of which will be their recently rolled out Chevy Volt model.



Health Care, Financials and a Partridge in a Pear Tree

Health care stocks lagged again in November, making the sector the weakest performer YTD. With the implementation of the most onerous provisions still on the horizon, concerns about the effects of new health care legislation continue to linger. Republican's Congressional victory may bring change to that outcome, but at this point the health care bill is taking a backseat to deficit and tax discussions

Financials, technology, consumer staples and utilities stocks rounded out the underperformers. Financials were hit by Eurozone concerns, new regulatory scrutiny and questions surrounding the ultimate effects of the foreclosure moratorium. Large cap technology stocks were lower largely due to a selloff in Google. The firm was hit by news that the European Commission was opening an antitrust probe. Consumer staples, telecom and utilities struggled, as the search for yield was subdued for a second consecutive month. Within the S&P 500, November saw another 30 companies increase dividends, with business servicer Iron Mountain the sole new initiator (no company decreased or suspended dividends during the month).

Sources: MSCI Barra, Bloomberg, WSJ, Charles Schwab, Independent Investor, Wells Fargo Economics Group, Bespoke, FactSet



Fixed Income: QE2's Maiden voyage

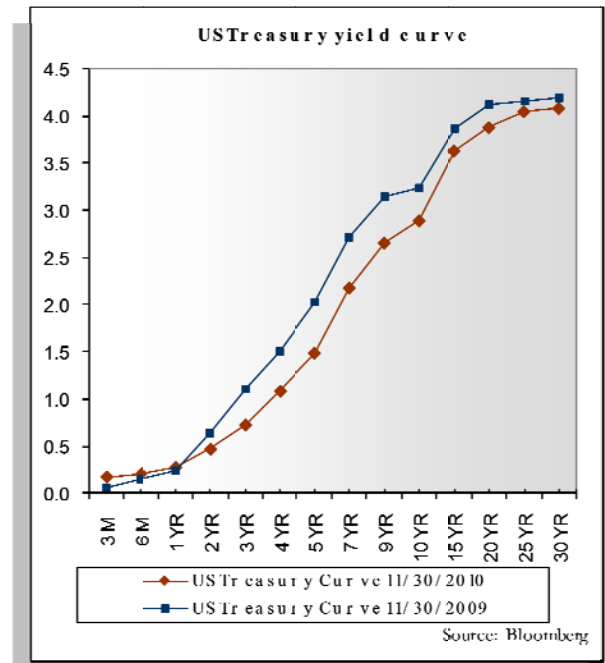
Employment remained a sticking point in November, after the economy struggled to add new jobs. Overall nonfarm payrolls increased by 39,000 and private sector payrolls expanded by 50,000. The report was extremely disheartening considering that all indicators were pointing towards more robust growth.

Overall, the economic recovery continues to bump along at a tepid pace. Plans by the Federal Reserve to encourage consumption and lending through low interest rates and asset purchases have proven mildly effective to this point. Until the employment market enters a healthy growth phase and individuals feel more secure about their economic situation, growth is likely to remain stagnant.

Federal Reserve: The Fed expects to complete its purchases of \$600 billion of Treasuries by the end of the second quarter in 2011, translating into roughly \$110 billion worth of purchases per month. Troubling is the fact that Ben Bernanke, Federal Reserve Chairman, said recently on "60 Minutes" that the Fed may be willing to engage in further asset purchases down the road depending on the trajectory of economic growth.

According to a release on the Federal Reserve Bank of New York website, Treasuries with a maturity between 2.5 to 10 years will make up about 86% of overall purchases by the Fed. The long-term implications of such actions will be a huge unknown for years to come and investors need to keep attune to any sudden and rapid changes that occur in the market place.

US Taxable Market: In general it was a rough month for the fixed income markets. The pressure on yields was significant for most of the month with US Treasury yields peaking just before the Thanksgiving holiday. The 2 and 10 year reached near six month highs as fears grew that the Federal Reserve's quantitative easing activity may spark broad based inflation. Yields then quickly fell as financial issues in Europe, and geopolitical issues surrounding North Korea, once again forced a flight to quality into US based assets.



Corporate Market: Corporate markets experienced a mismatch of supply and demand, as well as a flight to quality during November. To explain: as the month got underway, a large number of new deals was announced as issuers and dealers rushed to raise funds before the holidays. This supply was met with waning demand. Investor support for corporate debt declined along with their appetite for High Yield funds. Problems surrounding Europe and North Korea led to a flight away from lower quality assets.

Municipal Market: It was a particularly rough month for the Muni market for the following reasons:

- the broad based increase in Treasury yields
- heavy supply as issuers rushed to get deals done before the holiday period
- a lack of demand as investor flows turned negative (through November 24th the Muni market experienced outflows of nearly \$7 billion in as investors reallocated)
- uncertainty regarding the future of the Build America Bond program
- uncertainty regarding the future federal income tax rates
- ongoing credit-related headlines.



By mid November the 10-year AAA Muni had reached 3%, from 2.5% since the start of the month. Yields declined to 2.82% by Thanksgiving as investors began to recognize value in the market.

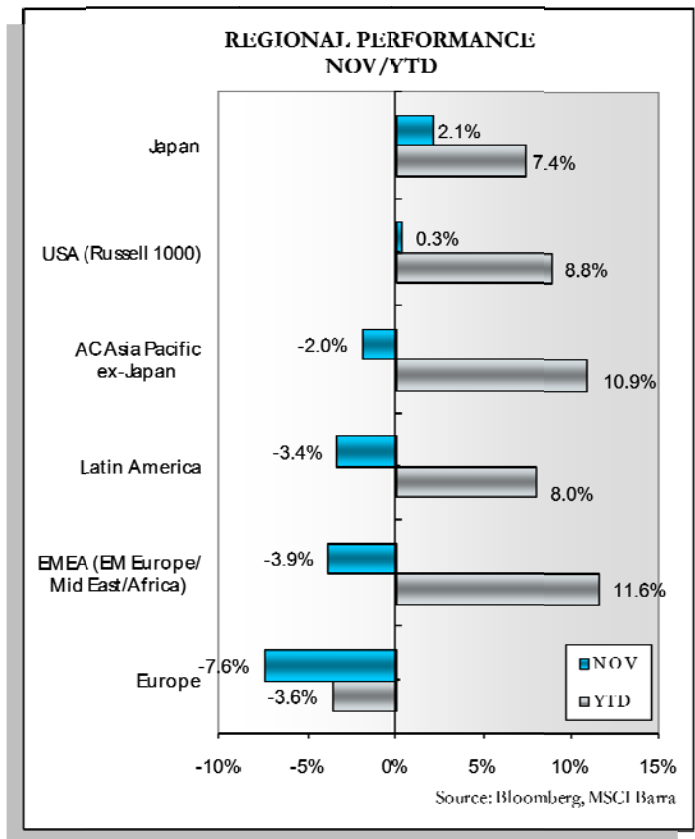
International Markets: The international bond markets had a difficult month as well. Overall, yields were a bit higher relative to October, no matter the international sector: While it is difficult to generalize due to the differing economic trends across the world, it is notable that local currency Emerging Market debt realized higher yields as inflation concerns among many of the Asian countries sparked a move towards higher rates. By far the most difficult sector was unhedged developed sovereign debt. Yields rose dramatically for Ireland, Portugal, Spain, and Italy due to Germany's proposal that bondholders of troubled sovereigns' debt share losses from any future bailouts. Despite Germany's withdrawal of the proposal, yields rose dramatically for Ireland and other troubled European countries, forcing the EU and IMF to step in and stabilize Irish banks ahead of any potential flights of capital. This stressful activity, combined with North Korea's bombing of a South Korean island off the coast of the peninsula, forced a broad based flight to quality into US dollar based assets, specifically Treasuries.

Bloomberg, Barclay's Capital, Colchester Capital, Municipal Market Advisors, Stone & Youngberg LLC, Wall Street Journal

International Equities: uncertainty sparks flight to quality

International equities took a step backward in November, as pervasive uncertainty returned to global markets. Foreign developed equities lagged their US large capitalization counterparts by just over 5% during the month. Emerging markets were slightly less negative than developed at -2.6%, but still underperformed US stocks. YTD, however, emerging markets remain the market leader among global equities at 11.2%.

Europe: Developed Europe was by far the biggest laggard of the month, declining 7.6% (of which about half was currency weakness). Renewed concerns about European sovereign debt, instigated by Ireland's EU-IMF bank rescue, rattled markets in the region. Ireland (-8.2%) did not bear the worst of it, however, as the rest of Europe's southern periphery – Spain (-20.3%), Italy (-15.6%), Greece (-15.5%), and Portugal (-14.3%) – suffered from contagion effect and were all double digit decliners. The problem has raised fears that ultimately some or all of these countries will be forced to restructure their debt, further reducing global risk appetite in the midst of a tepid global recovery.





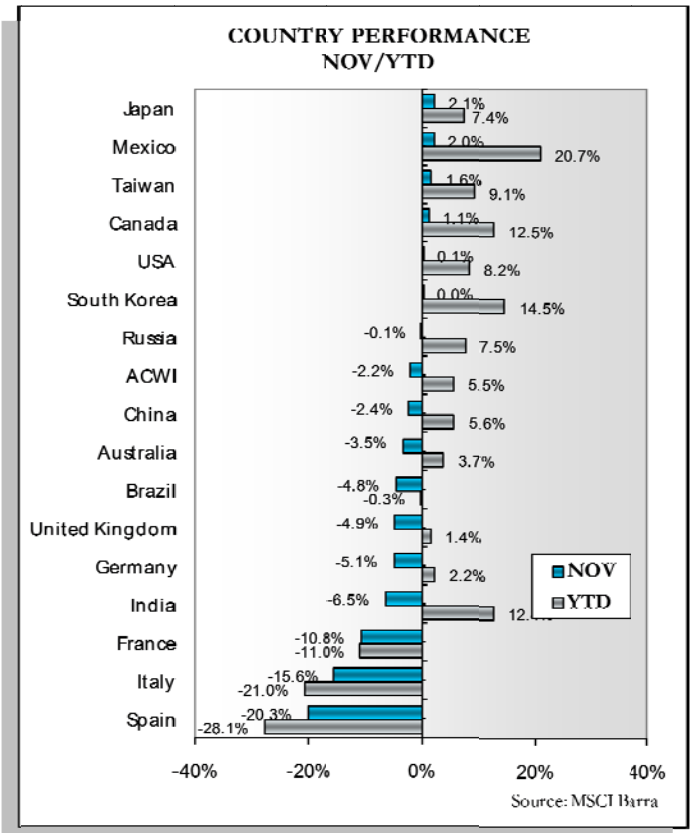
Japan: Moving very much in the opposite direction of Europe's equity markets, Japan (+2.1%) was the top performing ACWI country in November. Despite the flood of US dollars entering global markets, since QE2 was announced, the yen has declined 4.6% against the dollar, reversing the trend seen for most of the year. The currency revaluation should increase competitiveness for the country's exporters, however, Japan's economic fundamentals remain less than encouraging.

Emerging Markets: Threat of conflict in Korea and a slowing China weighed on emerging markets in November, with the broad index pulling back over 2%. Individual country returns exhibited wide dispersion, with countries like Mexico (+2.0%), Chile (+1.1%), and Thailand (+0.4%) outperforming. Other members in that category, however, like Colombia (-13.1%) and the Philippines (-13.1%), fell sharply.

China: China (-2.4%) continued to muddle along in November, finishing in the middle of the ACWI pack. At 5.6% YTD, the index is outperforming Europe and the broad ACWI ex-US index, but trails most other emerging markets countries as well as the US. Inflation remains an issue for the country, with October's CPI figure accelerating to 4.4% appreciation over the past 12 months. More concerning is that the food component of that statistic rose an astounding 10% during that time. Following the report, the government imposed price controls on food and introduced subsidies to help stem the price increases. In keeping the Chinese renminbi artificially weak against the US dollar, China has expanded its (measured) money supply by 54% over the last two years. Economists point to this dramatic increase in liquidity as the source of price inflation in China, as opposed to any supply side contractions in agricultural products.

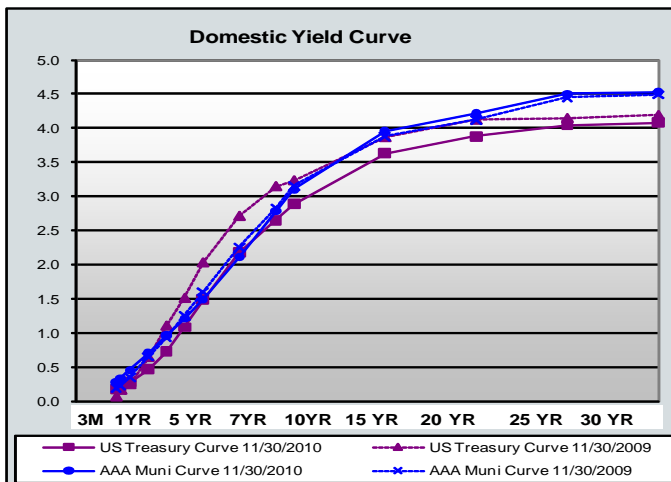
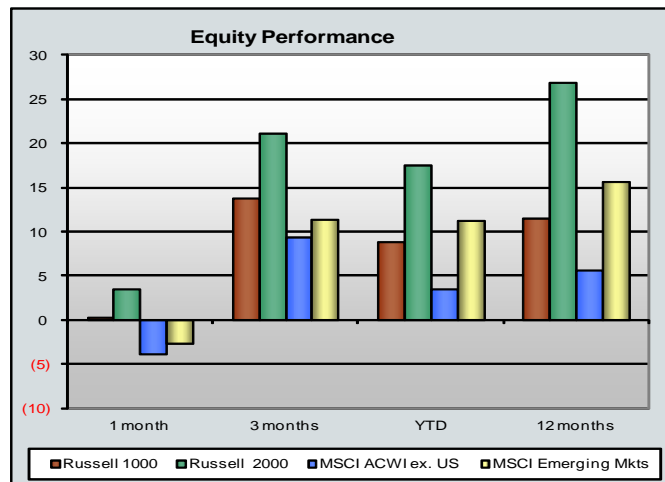
Looking Ahead: As we roll into the final month of 2010, investors will be closely watching the sovereign debt situation in Europe to see whether larger countries (read: Spain) come under pressure. Several European banks still retain exposure to these troubled government assets, as well as to the region's weak housing market. With defaults rising and home prices sagging, many European banks will continue to struggle as they write down debt and see loan growth waver. Despite the region's perceived troubles, core Europe seems to be improving economically outside of this sector. GDP estimates have ticked up for the broad Eurozone in recent weeks, as well as in Germany, France, and the UK. A declining euro may make it more difficult for many European companies, particularly large multinationals exporting into the US and emerging markets.

Sources: MSCI Barra, Bloomberg, Colchester Global Investors, Investor Insight, Matthews Asia, New York Times





MONTHLY PERFORMANCE FLASH REPORT
November 30, 2010



	1 month	3 months	YTD	12 months
Large Cap				
S&P 500	0.01	13.08	7.86	9.94
DJIA	(0.61)	10.63	8.29	9.33
Russell 1000	0.33	13.81	8.83	11.48
Russell 1000 Value	(0.53)	10.40	7.06	8.95
Russell 1000 Growth	1.16	17.28	10.62	14.04

	1 month	3 months	YTD	12 months
Small/Mid Cap				
Russell 2000	3.47	21.12	17.52	26.98
Russell 2000 Value	2.54	17.95	14.95	23.66
Russell 2000 Growth	4.36	24.26	19.98	30.25
Russell Microcap	3.50	22.34	18.01	27.54
Russell Midcap	1.82	16.94	17.35	24.04
Russell Midcap Value	0.51	14.03	16.00	22.07
Russell Midcap Growth	3.28	20.29	18.97	26.33

	1 month	3 months	YTD	12 months
International Markets				
MSCI EAFE	(4.79)	8.35	0.10	1.55
MSCI ACWI ex. US	(3.84)	9.36	3.48	5.69
MSCI Europe	(7.56)	7.07	(3.61)	(2.14)
MSCI Japan	2.10	9.02	7.40	8.24
MSCI AC Asia Pacific Ex - Japan	(1.98)	12.69	10.88	14.87
MSCI EAFE SMID	(3.85)	10.70	6.83	8.10
MSCI ACWI ex. US SMID	(2.98)	11.97	11.06	13.92
MSCI Emerging Mkts	(2.64)	11.35	11.24	15.65
MSCI EMEA	(3.90)	10.75	11.56	16.72
MSCI Latin America	(3.40)	10.20	8.01	10.23
MSCI Frontier Markets	(0.88)	10.86	18.64	17.41

	1 month	3 months	YTD	12 months
Sectors (S&P 500 GICS)				
Consumer Discretionary	2.61	20.12	22.55	28.11
Consumer Staples	(1.17)	7.76	9.48	9.19
Energy	5.49	21.71	10.52	9.50
Financials	(0.67)	6.88	1.26	(0.31)
Healthcare	(2.87)	8.15	(1.51)	0.53
Industrials	1.11	15.61	17.63	19.15
Information Technology	(1.64)	17.44	4.68	10.56
Materials	1.12	16.21	10.73	12.51
Telecom Services	(1.43)	7.69	10.36	15.49
Utilities	(3.03)	0.94	2.30	7.97

	1 month	3 months	YTD	12 months
Fixed Income				
BarCap US Agg	(0.57)	(0.11)	7.70	6.02
BarCap 1-10 Muni	(0.70)	(1.12)	3.93	3.77
BarCap HY Muni	(2.83)	(1.64)	9.62	11.11
BarCap Inv. Grade Credit	(0.81)	0.00	10.01	9.15
BarCap Muni Long Bond (22+)	(3.82)	(3.77)	4.75	6.14
BarCap US Agg Securitized MBS	(0.18)	0.41	5.95	4.46
BarCap US Treasury Intern	(0.60)	0.01	6.90	4.65
BarCap US Treasury Long	(1.33)	(6.09)	13.63	7.23
BarCap US High Yield Loans	0.21	3.32	8.13	11.48
ML US High Yield BB/B Rated	(1.12)	3.74	12.72	15.33
JPM GBI Global ex US Hedged	(1.51)	(2.55)	3.37	2.87
JPM GBI Global ex US Unhedged	(6.17)	(1.21)	3.60	(2.45)
JPM GBI-EM Global Div	(4.65)	2.14	12.16	11.76
JPM ELM+	(3.41)	2.81	3.01	2.09
JPM EMBI+ Composite	(3.41)	0.12	12.57	12.79

	Latest Month end (11/30/2010)	3 Months ago (8/31/2010)	Latest Year end (12/31/2009)	12 Months ago (11/30/2009)
U.S. Dollar Index Value	81.20	83.20	77.86	74.88
USD vs. Yen	83.69	84.20	93.02	86.41
Euro vs. USD	1.30	1.27	1.43	1.50

	Latest Month end (11/30/2010)	3 Months ago (8/31/2010)	Latest Year end (12/31/2009)	12 Months ago (11/30/2009)
Currency				
U.S. Dollar Index Value	81.20	83.20	77.86	74.88
USD vs. Yen	83.69	84.20	93.02	86.41
Euro vs. USD	1.30	1.27	1.43	1.50

	Latest Month end (11/30/2010)	3 Months ago (8/31/2010)	Latest Year end (12/31/2009)	12 Months ago (11/30/2009)
Commodities				
Gold (\$ per troy ounce)	1386.02	1247.45	1096.95	1179.60
Crude Oil (\$ per barrel)	84.11	71.92	79.36	77.28

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