



An upbeat start to the quarter quickly unraveled as volatility returned to most sectors of the market in the second quarter, leaving many concerned with the nation's continued state of instability.

Job Market

The number of people filing first-time claims for unemployment benefits climbed 13,000 to 472,000, indicating continued weakness in the labor market. According to the Department of Labor, although claims have fallen 22% from one year ago, they are up 4% since the start of 2010. At the end of May, the US employment rate stood at 9.7%, just slightly below a 27-year peak.

Housing

Sales of new single-family homes tumbled more than expected to a record low in May as the effects of a popular tax credit faded. Sales dropped a record 32.7% to the lowest level since record-keeping started in 1963. The median sale price for home sales fell 1% in May from April to \$200,900, the lowest since December 2003. In the previous 12 months, prices fell 9.6%, the largest decline since July 2009.

Home builders continued to shed inventories in May, cutting the number of unsold homes by 0.5% to 213,000, the lowest level in 39 years. In the past year, inventories are down 27%, while sales are down 18%.

Consumer Confidence & Spending

Consumer prices fell in May, largely because of the lower cost of gasoline. According to the Bureau of Labor Statistics, the seasonally adjusted consumer prices fell 0.2% within the past month; that drop was almost entirely the result of lower energy prices. The food index was unchanged after increasing 0.2% in the last two months.

Commodities

Much of gold's gains since the start of the year came as the European debt crisis reduced confidence in currencies and increased demand for gold as a safe haven. As the quarter approached the close, gold ended at \$1,235.90 an ounce, declining 0.8%, after lackluster reports in the employment sector. Other metals, such as copper, are on the decline, based on concerns of a slowdown in China. Crude oil fell nearly 3% to below \$ 76 a barrel, as the consumer confidence index declined in June.

Market Overview

The Dow Jones Industrial Average closed the quarter at 9,774.02, down 1,082.62 points, or 10% for the second quarter of 2010.

The S&P 500 Index fell 10.53 points, down 11% for the second quarter, closing at 1,030.71. The NASDAQ Composite Index fell 25.94 points, off 11% for the second quarter, to close at 2,109.24.

What's ahead?

Approximately 8.2 million Americans lost their jobs during the height of the recession in 2008 and 2009, and many still remain unemployed. The lack of job growth has become a central issue between Democrats and Republicans as the congressional elections approach in the fall. Given the high unemployment and low inflation, economists believe that the Fed is likely to wait until 2012 before it starts to raise interest rates.

If home sales remain weak, prices could fall further, which would in turn depress consumer spending, increase foreclosures and lead to more losses at banks.

Sources: *MarketWatch*, June 2010; *The New York Times*, June 2010

The Wall Street Reform and Consumer Protection Act

The contentious financial reform bill working its way through Congress attempts to regulate financial institutions in order to avoid major economic upheaval and protect consumers. In excess of 2,000 pages, the bill has a myriad of provisions aimed at various organizations and activities in the financial services industry. In essence, the bill attempts to reduce the chances of a systemic crisis similar to that of 2008 by increasing the transparency of financial institutions, making large banks operate more conservatively and preparing government organizations for a concerted response to future financial problems.

In addition to reducing systemic risk, the bill is designed to help consumers of financial services. The FDIC will now cover up to \$250,000 in federal deposits. Also, the bill will create "The Consumer Financial Protection Bureau," as a new part of the Federal Reserve. This agency will have authority to make and enforce rules for financial institutions that serve non-professional consumers. Such institutions as large banks and credit unions, mortgage related companies, and pay day lenders will be regulated by this new bureau in ways designed to make consumers' financial decisions more simple and appropriate.

For instance, mortgage brokers will no longer be paid bonuses for selling borrowers more expensive versions of loans. Additionally, lenders will now be required to verify the income and creditworthiness of its borrowers. Although further amendments will almost certainly be made, the interpretation and implementation will mostly be done by government regulators, not politicians.

 **NUMBERS TALK**

Number of baby boomers becoming eligible for Medicare and Social Security each day for the next two decades...10,000

Percentage that healthcare coverage costs are projected to increase in 2010 for PPOs...11.1

Percentage that healthcare coverage costs are projected to increase in 2010 for HMO's...10.3

Average cost of family healthcare coverage per year in a small firm...\$ 13,700

Average annual cost per person that is spent on healthcare in the United States by all sources, including individuals, employers, and government...\$ 7,500

Percentage increase in college students taking a leave of absence from school as a personal money management decision in response to the recession...106

Percentage of families with a financial planner who report having a positive savings-to-debt ratio...55

The amount of assets in orphan 401(k)s (those workers have left with a previous employer) in 2009...\$1 Trillion

Percentage of affluent 30-somethings who think it is important to have a written financial plan...48

Percentage of affluent Americans who have already, or plan to, cut back on charitable giving this year...28

Percentage of workers in 2010 who expect to receive retirement income from Social Security...77

Amount that a typical couple at age 65 can expect to spend over their remaining lifetime on healthcare costs, including nursing home care...\$ 260,000

Percentage of female retirement plan participants who are confident making their own investment decisions...32.5

Percentage of male retirement plan participants who are confident making their own investment decisions...48

Percentage increase in the number of financial services internship posts this year over last...250

Number of financial advisers (out of a pool of 320,000) who exited the profession during the 2008–2009 economic crisis...20,000

Percentage of Americans who believe the economy still has not hit rock bottom...59

Percentage of Americans ages 65–75 expected to be employed in 2010...25

Number of states that raised taxes on the wealthy in 2009...9

Percentage of Americans ages 18–34 who believe the best stock investment opportunities over the next 10 years will lie outside the United States...61

If you would like to discuss any of the topics contained in this issue of "FINANCIAL FOCUS," contact Pegasus Asset Management, Inc. at 845-369-9422, or via e-mail:

Rodd Berro: rberro@pegasusassetmgt.com

John M. Sebastiano: jms@pegasusassetmgt.com

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