



As the financial markets received a government-supported boost in 2010, the question remains: was the intervention enough to lead us to a successful recovery?

Job Market

Although the U.S. economy added a less-than-expected 103,000 jobs in the final month of 2010, the nation's unemployment rate fell to 9.4% from a previous 9.8%, in the biggest one-month drop since April 1998. This level touched upon the lowest in a year and a half, as reported by the Labor Department.

The number of people officially classified as unemployed fell in the last month of the year to 14.5 million from 15 million. Yet, the surprisingly large decline is not as positive as it appeared. According to economists, about half of the decrease stemmed from people dropping out of the labor force.

The unemployment rate spiked to a 28-year high of 10.1% in October 2009. Before the 2007-2009 recession began, the jobless rate stood below 5%.

Housing

Home prices stabilized in the first half of 2010 as the government offered tax credits to spur sales, but transactions plunged to 15-year lows after that stimulus expired. A consequence of that expiration is reflected in a report issued by Case-Shiller, as home prices tumbled in October, falling 1.3% on a monthly basis, 0.8% on an annual basis. Prices have not dropped on an annual basis since January 2010 and are 29.6% below their peak. Including homes that are in or close to foreclosure, currently there is an inventory of 7.2 million homes, or roughly 21 months of supply. This report is based on prices over a three-month period, including prices from August, September and October.

Consumer Confidence & Spending

The U.S. consumer confidence unexpectedly deteriorated in December, hurt by increasing worries about the job market, present and future. Confidence fell to 52.5 in December, from an upwardly revised 54.3 in November, as reported by the Conference Board.

Against the backdrop, consumers have been reassessing their spending plans. For example, those with plans to purchase an automobile within the next six months fell from 5.6% in November to 4.5% in December, while those with plans to buy major appliances eased to 25% from 25.2%. Those with plans to purchase a home rose, reaching 1.8% from 1.7%.

U.S. consumers spent 5.5% more in the 2010 holiday season than they did a year earlier, buying goods such as cold-weather clothing, and big-ticket items such as jewelry and other luxury goods. Online sales were also strong, up more than 15% for the period.

Commodities

Gold ended the year at a record of \$1,421.10 per ounce, up 29.8% for the year. Last year not only marked gold's 10th straight up year, but was also its best-performing year in dollar terms in history.

Platinum and palladium, used in car parts, also jumped last year on the back of a recovery in the world's automobile industry. Of all of the precious metals, silver's surge came as a the biggest surprise, gaining 83.8% to \$30.91 a troy ounce.

Global oil demand was on track to hit an all-time high in 2010, growing 2.9% to 87.45 million barrels a day, as reported by the International Energy Agency. Oil, while down from its peak of \$145 a barrel from July 2008, is still pricier than in September 2007. Oil ended the year up 15.2% at \$91.38 a barrel.

As a surprising contrast, natural gas was among the worst-performing commodities for the year, down 20.9%. Prices were weighed down by a weaker demand and over-supply.

Market Overview

The Dow Jones gained 11% in December, closing the year at 11,577.51, re-gaining levels last seen before the collapse of Lehman Brothers in September 2008. The Dow finished the year less than 8 points shy of its high for 2010, ending with a 7.3% gain in the 4th quarter, and an 18.5% rise in the second half of the year. The S&P 500 Index closed the year at 1,257.64, up 12.8%, while the NASDAQ Composite Index closed the year at 2,652.87.

As we close out 2010, the continuing slow U.S. recovery since the end of the recession in mid-2009 is partly the result of high unemployment, affecting the nation's economic growth. Increased hiring by businesses more confident in a U.S. recovery is seen as a key to nursing the economy back to good health. And while prices stabilized in the first half of 2010, credit standards are still tight. While mortgage delinquencies peaked in February 2010, foreclosures could remain at an elevated level for years as banks work through their backlog.

Sources: *MarketWatch*, December 2010; *The Wall Street Journal*, December 2010; *The New York Times*, December 2010.

 **NUMBERS TALK**

Percentage of executives in India who anticipate the size of their company's workforce to increase in 2011, compared to 19 percent of those in the Eurozone and 36 percent in North America...**59**

Average age at which decision-making related to financial transactions results in the fewest mistakes...**53.3**

The average initial loan amount from 401(k) plans as of the end of the second quarter 2010, with an average loan duration of three-and-a-half years...**8,650**

The year through which Medicare is estimated to remain solvent, 12 years longer than the 2017 date estimated last year...**2029**

Percentage of U.S. homes with only wireless phones in the second half of 2009, rising 4.3 percentage points from the year before...**24.5**

Number of months that 45 percent of Americans think they could meet their financial obligations if they lost their jobs...**<1**

Percentage increase of the number of high-net-worth individuals in the top 10 U.S. metropolitan areas in 2009, the highest growth rate in the last four years...**17.5**

Estimated percentage of world's wealth controlled by women in 2009...**27**

Percentage of parents of high school students who sought help from financial advisers in 2010...**33**

Percentage of baby boomers ages 50 to 60 who do not expect to need financial support from others at some point during retirement...**74**

Percentage of Americans who say they are saving more because of the economic crisis; 30 percent report having no savings...**6**

Average IRA balance held by men, compared to an average \$51,314 IRA balance held by women...**91,063**

Boxes of all Cheerios varieties sold per minute in fiscal year 2010, holding the number one (Honey Nut Cheerios) and number two (regular Cheerios) positions among top-selling cereals in the United States...**500**

Minutes each day the average Facebook user spends on Facebook...**55**

Percentage of wealthy individuals who envision working in some capacity no matter what their age is...**60**

According to the U.S. Census Bureau, young women who are single, childless, and under 30 make this percentage more in median full-time salary than young men in most big U.S. cities...**8**

Annual cost contributed, on an average, for out-of-pocket expenses for caretaking services, excluding the cost of facility care...**\$8,800**

Percentage of Americans with \$5 million+ in investable assets engaged in social media, such as Facebook...**70**

Average age of primary caregivers...**53**

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

**Visit us on the web! You can view current and previous newsletters at:
www.pegasusassetmgt.com**

Remember, past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly in this newsletter, will be profitable, equal any corresponding indicated historical performance levels, or be suitable for your portfolio. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Pegasus Asset Management, Inc.