



**A**fter a tumultuous second quarter, investors could be forgiven for feeling dazed and in disarray. Sentiment swung from optimism about the global expansion in the first quarter, to worries about the extent of an economic soft patch. Subsequently, a rise in oil prices and the disaster in Japan followed, along with continuing Greek debt concerns.

**By Gabriella Cosentino**

### **Jobs, Consumer Confidence & Spending**

The economy created only 54,000 jobs in May, the lowest amount in eight months, as reported by The Labor Department. The unemployment rate rose to 9.1 percent last month, as jobless claims fell by 1,000 last week to 428,000, its 12<sup>th</sup> straight week above 400,000.

Japan's March 11<sup>th</sup> earthquake and tsunami has led to a parts shortage, particularly in the auto and electronic manufacturing sectors. American factories are expected to begin producing more once Japan's factories resume normal operating capacity.

Consumer confidence fell in June to the worst level in eight months on concerns about employment figures and income. The index fell to 58.5 in June from an upwardly revised 61.7 in May, holding the flattest level since September 2009. Generally when the economy is growing at a good pace, confidence readings are at 90 and above.

### **Housing**

Home prices in major U.S. cities have risen for the first time in eight months, lifted by a squall of spring buyers. A delay in processing foreclosures is a contributing factor, as homes in foreclosure sell at 20 percent discount on average.

The Case-Shiller home-price index reported that prices in April rose in 13 of 20 cities tracked. In previous months, home prices in big metro areas sank to their lowest since 2002. Since the real estate bubble burst in 2006, prices have fallen more than they did during the Great Depression.

Even with the reported good news in housing comes the bleaker side—new home sales haven't fared too well. Quantities of new home sales fell in May to a seasonally adjusted annual rate of 319,000—fewer than half the 700,000 that economists say must be sold to sustain a healthy housing market. Sales of new homes have fallen 18 percent in the two years since the recession ended.

Last year was the worst for new-home sales on record, dating back half a century.

### **Commodities**

Although it spiked to a price peak of nearly \$114 a barrel by the end of April, crude oil lost 11% in the three months since March 31.

What has changed to drag oil prices lower is a surprise decision by the International Energy Agency to release 60 million barrels of oil from reserves and concerns about weaker oil demand, as global economies struggle and Greece paves the way toward a financial bailout.

The 60 million barrel quantity is approximately 43 days of lost Libyan barrels and less than 0.2 percent of annual global oil demand.

The move was aimed at making up the loss of oil supplies from Libya, which removed 132 million barrels from world markets by the end of May. This solution will likely be a temporary one, in terms of effectiveness.

### **Market Overview**

The Dow Jones, up 0.8% for the second quarter, closed at 12,414.34. The S&P 500 Index rose 3% through the end of the second quarter, as Greek parliament approved strict measures to avoid default. The Index finished at 1,320.64, down 0.4% for the quarter, while the NASDAQ Composite Index closed at 2,773.52, off 0.3% for the second quarter.

### **What's Ahead?**

The depressed housing market has weighed on the broader economy. Larger down payment requirements, tougher lending standards and high unemployment are preventing people from buying homes. Many people who can afford to buy are holding off, worried that prices have yet to bottom out. Even with the reported increase, housing remains the weakest part of the American economy.

As consumer spending accounts for 70 percent of economic activity, slow wage growth continues to hurt the broader economy since consumers have less money to spend, dampening consumer confidence. Increases in gas prices has forced many consumers to cut back on discretionary purchases, such as furniture and vacations. Consumers are likely to continue weighing their spending decisions quite carefully. Sources: *MarketWatch*, June 2011; *The Wall Street Journal*, June 2011; *The New York Times*, June 2011.

 **NUMBERS TALK**

Amount in Treasury checks (of all kinds) fraudulently endorsed and cashed in 2010... **\$93 million**

The number of bank branches that closed in the United States in 2010... **1,033**

Number of cities in the United States where home prices are increasing on a year-on-year basis... **2**

Approximate number of American households that either have no bank account, or, rely on more expensive alternatives to traditional banking...

**30 million**

Percentage of US cellphones AT&T and T-Mobile combined (an acquisition bid for T-Mobile by AT&T is under way) would serve... **43**

Percentage of the nation's wealth held by the wealthiest 5 percent of Americans... **55**

Percentage of baby boomers who expect to receive an inheritance in the future... **15**

Number of teens hired for summer jobs (May through July) last year, the lowest since 1949... **960,000**

Percentage of U.S. households expecting income increases in the year ahead... **38**

Approximate percentage of Americans who carry their PIN number with their bank or credit card... **10**

Percentage of the Gen Y demographic who report owning a smartphone... **52**

Percentage of bachelor-degree graduates in 2008 with student-loan debt, averaging about \$24,000 per graduate... **2/3**

Amount people who earn between \$50,000 and \$75,000 annually estimate they will need to save to retire at age 65 and live for 20 years... **\$250,000**

Percentage of parents who report tapping their children's savings (or have considered making such withdrawals) to pay bills or pay off debt... **31**

Percentage of baby boomers who say they check their retirement account balances at least once a week... **45**

Average percentage of annual gross income paid to federal taxes in the United States... **13**

Monthly amount in which banks collect in fees from U.S. consumers using debit cards mostly at retail outlets... **\$1.3 billion**

Percentage of unemployed Americans ages 30 to 49 who are falling behind on their bills or experiencing more serious financial problems... **35**

Percentage of millionaires who say they've made back all of the money they lost in the market from fall 2008 through the first half of 2009... **33**

*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:*

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