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August 2009 Market Recap

Submitted by Investment Partners, LTD

Upsurge Continues

Stocks extended their strong midyear rally in August, riding a crest of stronger-than-expected economic news and regaining levels last touched in October 2008. A resurgence of activity in the housing arena provided a notable boost during the month, as buyers eager to take advantage of government incentives were spurred into action. So, too, did the beleaguered automotive industry receive a much-needed jump-start from the “Cash for Clunkers” program. In the automotive industry, as well as in other manufacturing-oriented industries, this surge in demand, combined with a rebuilding of inventories from previously depressed levels, brought renewed vitality to many economic reports.

The positive developments have led many economists to declare that the current recession has officially ended, though there is little consensus on the expected strength of any pending recovery.

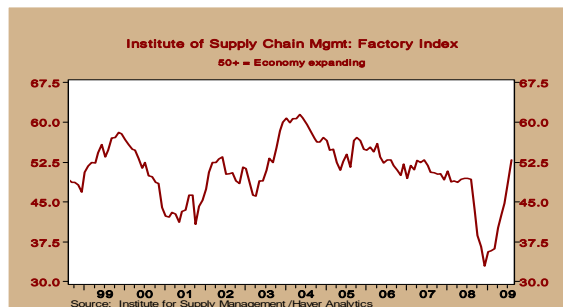
Stocks extend rally

Financial stocks in general, and bank stocks in particular, led the charge in August, helping the Dow Jones Industrial Average (DJIA) to a 3.97-percent monthly return. The Standard & Poor’s 500 (S&P) gained 3.61 percent, while the more technology-heavy Nasdaq Composite Index saw a milder increase of 1.54 percent. The summer rally has now propelled each of these indices to decent gains for the year—with the DJIA up 10.79 percent, the S&P up 14.97 percent, and the Nasdaq up 27.40 percent.

As big a rally as the U.S. has experienced, investors have shown an even greater appetite for overseas stocks—the MSCI EAFE Index returned 5.45 percent in August and now boasts a gain of 24.78 percent year-to-date. But while stocks in developed economies continued to advance, the MSCI Emerging Markets Index actually fell slightly, by 0.33 percent last month, as investors began to question the sustainability of growth in these still developing economies. In China, for example, where the validity of government statistics is sometimes questioned, investors fretted over the magnitude of government stimulus being employed. As a result, the Shanghai SE Composite plummeted 21.81 percent in August—foiling investors who jumped on the China bandwagon too late.

Optimism reigns

Skeptics, however, were mostly relegated to the background last month, as economic reports in general lent credence to the belief that a global economic recovery is upon us. The National Association of Realtors said its pending home sales index, based on contracts signed in July, rose last month to its highest level since June 2007, indicating that stimulus measures are pushing wary buyers off the fence and into action. In fact, sales of existing single-family homes have now increased for four consecutive months—the longest such streak since mid-2004.



(continued on next page)

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MARKET COMMENTARY (CONT.)

Manufacturing activity also ramped up significantly in August both at home and abroad. Domestically, the Institute of Supply Chain Management said its index of factory activity rose to 52.9 last month, a number that indicates the first expansion in manufacturing since January 2008. The data was certainly helped by strong auto sales spurred by the Cash for Clunkers program, as automakers Ford and General Motors saw August sales increase by 11 percent and 30 percent, respectively, compared with July. Overseas, measures of Chinese manufacturing activity also rose to a 16-month high, and Eurozone manufacturing, though still exhibiting a slight decline, was much better than predicted.

Where to next?

Opinions among experts vary widely about the recent economic and stock market resurgence. On the one hand, it is undeniable that conditions have improved on many fronts—housing market activity has ramped up, manufacturing has rebounded, and the stock market has gone on an absolute tear to the upside. Some forecasters think this is the beginning of a sustained new growth phase and believe the recent recession is now growing faint in the rear-view mirror. Others, however, assert that structural weaknesses in the economy remain and that much of the recent good news can be attributed to quite ephemeral forces—such as the government push to spur home and auto sales and the cost-cutting initiatives that allowed many companies to beat second-quarter earnings expectations. They fear that investor enthusiasm has raced ahead of the economic reality and that, should those stimulative forces abate, the economy and financial markets could sputter anew. At present, however, those concerns seem out of step; recent indicators are siding with the optimists.

***Disclosure:** Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. All indices are unmanaged and investors cannot invest directly into an index. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Nasdaq Composite Index measures all Nasdaq domestic and non-U.S.-based common stocks listed on the Nasdaq Stock Market. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Shanghai Stock Exchange Composite Index is a capitalization-weighted index. The index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.*

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