

Q2
2011

Points of Interest

P1 Dow closes up 94 points and S&P 500 closes up 5 points in 2Q 2011

P2 PLEASE remember the 10th Anniversary of the 9/11/01 attacks

P3 The 9/11 memorial will open 9/12/11 to the public and is free to view.

P4 THE two memorial pools are built in the footprints of the original towers and the memorial composes some 8 acres

P5 The waterfalls around the pools are the largest manmade fall in North America.



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Pension Fund Evaluations, Inc.

Second Quarter Market Update

Not one of the most impressive Quarters!

It's rather amazing how sentiment in the financial markets can change so quickly. The market had fallen in seven of the previous eight weeks on various economic and political concerns, but then exploded like a supernova last week to end the quarter. One thing we can say about the financial markets is there's never a dull moment! The quarter finished relatively flat the S&P 500 0.10% and the Dow Jones at -.01%. Growth did manage to post slightly positive returns in the larger asset classes but was negative in the small cap area. Worldwide markets did slightly better posting returns of plus 1.5%

What to watch in 2nd half of the Year

With the first half of 2011 now history, here are a few things that made the headlines and may affect the markets over the second half of the year, according to The Wall Street Journal:

The Dow Jones Industrial Average had a volatile six months, but managed to end June on a high note and finish the first half of the year up 7.2%. **What to Watch:** The end of quantitative easing, ongoing European sovereign-debt issues, and the U.S. budget battle could keep investors on edge over the summer. In

addition, any signs that the current "soft patch" in the economy could turn into a new recession would not be received well by investors.

Various commodities took a price hit the past couple months including crude oil, wheat, corn, copper, and silver. Yet, by historical standards, many commodity prices are still very high and causing discomfort to consumers around the world. **What to Watch:** China, India, and Brazil are a major source of commodity demand and they are trying to rein in price inflation by slowing their economy. How successfully they manage this may determine the future demand for commodities and, by extension, impact inflationary pressure.

The initial public offering of internet stars LinkedIn and Pandora stirred talk of a new internet bubble. LinkedIn, for example, doubled in price on its opening day. **What to Watch:** While we're not close to the hysteria from late 1999, any signs of a bubble bear watching because when they burst, it's usually painful for the markets.

P6 The names of every person who died in the 2001 and 1993 attacks are inscribed into bronze panels edging the Memorial pools, a powerful reminder of the largest loss of life resulting from a foreign attack on American soil and the greatest single loss of rescue personnel in American history.

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Interest rates on U.S. government securities dropped significantly in the past few weeks as concern about a slowing U.S. economy and debt troubles in Europe caused investors to flee to the perceived safety of U.S. treasuries.

However, interest rates turned up at the end of the second quarter as the Greek situation eased and some data on the U.S. economy improved. **What to Watch:** Any significant change in the level of interest rates – either up or down – could move the stock market. With macro issues such as the end of quantitative easing, an uneven U.S. recovery, European debt woes, and the Washington budget battle still swirling around, interest rates could be volatile and we'll continue monitoring them.

The 10-year Treasury was up this month, increasing 12 bps to 3.17% (from last month's 3.05%, 3.29% at year-end 2010 and 3.84% at year-end 2009), as the 30-year Treasury increased 17 bps to 4.39% (4.22%, 4.34%, 4.63). Commodity prices were down. Natural gas closed the month down 0.4% and was down 10.9% for the 12-month period, while agriculture saw a 5.7% decline and was up 56.1% for the 12-month period. Gold closed at US\$ 1501.80 (US\$ 1536.00, US\$ 1422.00, US\$ 1180.10). Oil declined significantly and closed at US\$ 95.08.

06/30/11	QTR	YTD
S&P 500	0.10%	6.02%
R 1000 G	0.76%	6.83%
R 1000 V	-0.50%	5.92%
R Mid Cap	0.42%	8.08%
R 2000 G	-0.59%	8.59%
R 2000 V	-2.65%	3.77%
MSCI EAFE	1.83%	5.35%

	June	1 Year
Utilities	-0.48%	6.71%
Materials	-0.45%	2.64%
Consumer Stap	-2.85%	6.29%
Financial's	-2.92%	-3.68%
Consumer Discr	-0.32%	7.36%

China and its Demographics

Incredibly, China's GDP has grown at an average annual rate of 9.3% since 1989, according to Trading Economics. Yet, for all its might, there are some glaring holes that might trip it up over the coming years -- with demographics being one of them.

You may be surprised to know that between 2000 and 2010, the U.S. population grew faster than China's (9.7% in U.S. vs. 5.8% in China, according to Financial Times). For the past 20 years, China's economic boom has been partly fueled by urbanization -- rural folks moving to the cities in search of higher paying jobs, plus a supposedly endless supply of cheap young workers. Turns out that supply may be coming to an end.

China has had a one-child policy since 1979 and it resulted in the "non-birth" of about 250 million babies, according to Time Magazine. As a result, China's population is aging rapidly. Today, 12.5% of China's population is over 60. By 2020, it will hit 20% and by 2030, it will hit 25%, according to The Economist.

Worse yet, the working age population will start to decline in about 2015, according to the United Nations. Fewer workers supporting a growing elderly population is not a recipe for economic growth. Of course, China could reverse its one child policy and rev up population growth, but that would likely cause other problems such as food shortages or environmental issues. As the demographic shift causes the labor market to tighten, wages have already started to rise, according to The Economist. That puts pressure on inflation and makes the country less competitive