

ECONOMIC & MARKET UPDATE: APRIL 25, 2011 "NO CHILD LEFT BEHIND...UNTIL THEY ARE TEENAGERS, AT LEAST"

Economic Data - Previous Week

Date	Series	Actual	Survey	Prior	
4/19	Housing Starts	549K	520K	512K	Starts rebound broadly but remain at low levels
4/20	Existing Home Sales	5.10M	5.00M	4.92M	Marginal improvement in sales, supply still high

Economic Data - Upcoming Week

Date	Series	Actual	Consensus	Previous	
4/25	New Home Sales	--	280K	250K	Rebound expected from series low
4/26	S&P CS 20-City Idx	--	-0.40%	-0.22%	Broad weakness across cities to continue
4/26	Consumer Confidence	--	64.8	63.4	Sentiment survey points to rise, despite gas prices
4/27	Durable Goods	--	2.3%	-0.6%	Rebound expected in volatile series for March
4/28	GDP - Q1 Adv Est	--	1.9%	3.1%	Higher fuel costs dampening economist estimates
4/29	Personal Spending	--	0.5%	0.7%	Mixed retail data point to lower rise in spending
4/29	UMich Confidence	--	70.0	69.6	Further improvement anticipated despite fuel costs

Source: Bloomberg

A DOWNGRADE TO REMEMBER?

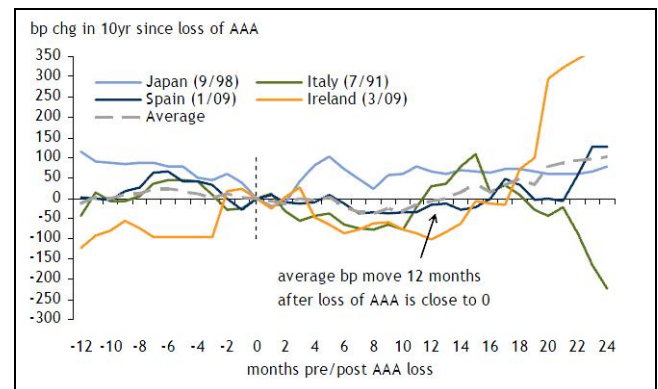
News of a potential downgrade to the US credit rating caused a sudden sell off in the equity markets early in the week, but positive earnings reports led to a rebound in most markets. By the end of the week, the S&P 500 index and the Dow Jones Industrial Average both closed higher by 1.3%.

Standard & Poor's took the unusual step of placing the US on credit watch negative, indicating that there is now a 1-in-3 chance of an outright downgrade to the US credit rating in the next two years. The announcement by S&P resulted in a severe equity market sell off on Monday morning before investors remembered S&P's previous track record.

In fact, as pointed out by Goldman Sachs economist Jan Hatzius, "academic research has generally found that rating agency actions lag market pricing, rather than lead it."

To demonstrate this effect, the Royal Bank of Canada examined the change in 10-year yields of countries that were downgraded. Italy, Japan, Spain and Ireland all experienced downgrades over the past twenty years. On

average, the yield on 10-year government debt for those countries was unchanged in the 12 months following the downgrade.



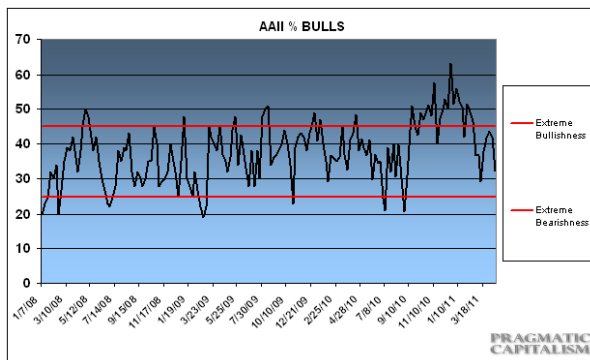
Source: FT Alphaville

Always the optimists, the US Treasury Department issued a press release stating that it "welcomes S&P affirmation of the US's AAA rating."

The combined effects of the S&P warning, rising gas prices and geopolitical unease exacted a surprisingly strong toll on retail investor sentiment.

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According to the American Association of Individual Investors (AAII), bullish sentiment among retail investors dropped sharply in the week ending April 20th, from 42.3% to 32.2%. Prior to this, retail investors were trending towards extreme bullish territory, a common contrarian indicator for risky assets. With this sudden reversal, sentiment is back within its historical range and almost 7 points below its long-term average.

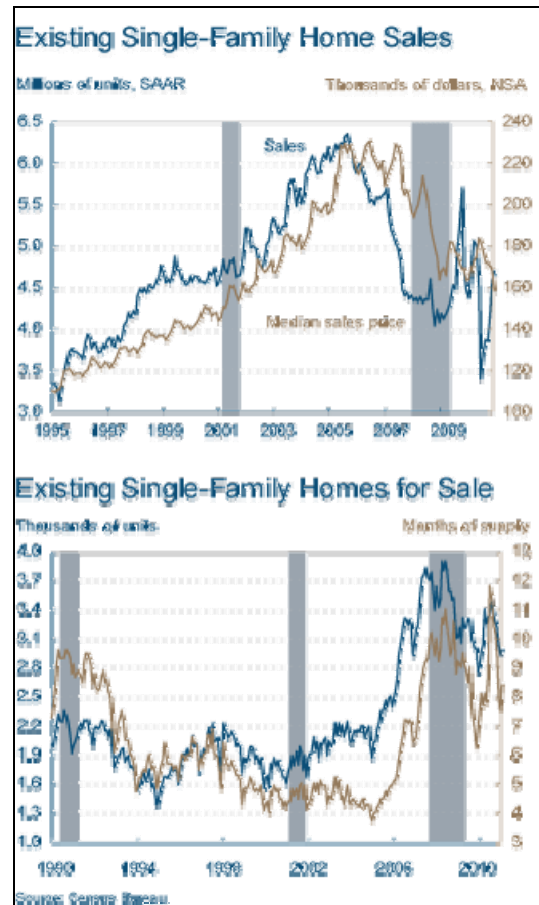


Source: *Pragmatic Capitalism*

Additional data from last week provided a mixed look at the economy but suggested there were pockets of improvement.

Existing home sales recovered slightly in March, increasing 3.7% to a seasonally-adjusted annual rate of 5.1mln. Despite the sales rebound, there are 3.55mln existing homes for sale. It will take months to reduce that supply, even without taking into

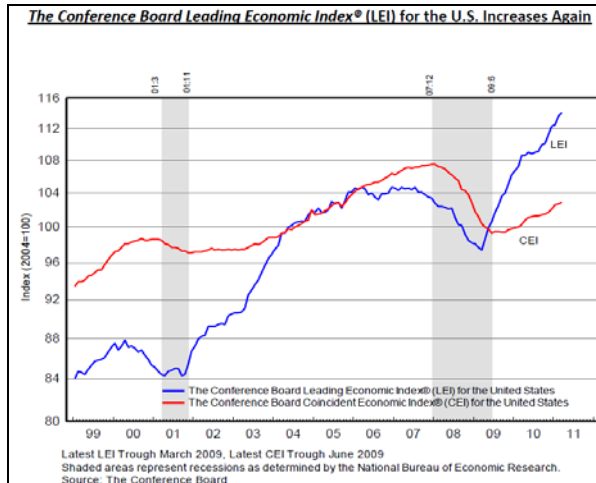
consideration homeowners that are waiting for an opportune time to list their homes for sale.



Source: *Federal Reserve Bank of Cleveland*

The Conference Board announced that the Leading Economic Index (LEI) rose another 0.4% in March due to ongoing strength in the spread between 10-year bonds and the fed funds rate. Momentum in the LEI appears to be waning as March's rise was less than half that experienced in February (+1.0%).

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Source: The Conference Board

A SUMMER TO FORGET

It is safe to assume this summer will be quiet for at least one segment of the American population – teenagers. While the recession eliminated jobs across every demographic, those lacking an education or work experience were especially hard hit. Without a plan to adequately train or educate those workers, the recession will have a lasting impact on the economy for years to come.

In the most recent employment situation report, the Bureau of Labor Statistics reported that the unemployment rate among individuals between 16 and 19 years old was in excess of 24%. This was almost three times the rate seen for the entire workforce. In total, 1.4mln teenagers who would like to work are not employed.

One of the forgotten culprits behind this surge in youth unemployment was put into place well before the recession began. Starting in July 2007, the government raised the minimum wage from its long standing level of \$5.15 an hour. A series of successive minimum wage hikes ended in July 2009 when the government raised the minimum wage one final time to \$7.25 an hour.



Source: National Public Radio

In the months immediately following the implementation of the July 2009 minimum wage hike, the unemployment rate for teenagers between 16 and 19 jumped from 24.4% to more than 27%. Since then, youth unemployment rates have improved marginally, but remain extremely elevated at 24.5%. This is in contrast to the broader unemployment figure which improved from 9.5% to 8.8% since the final wage increase.

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Source: Bureau of Labor Statistics

Ultimately, the goal of minimum wage hikes was to provide stability at the lower end of the workforce. When they only serve to elevate

joblessness for a segment of the population, that goal is undermined.

Youth unemployment might seem like a trivial problem given the relatively low wages earned and the small percentage of the population impacted, but a number of academic studies (as pointed out by the *Wall Street Journal*) show a high degree of correlation between long-term wages and youth employment. In order for the US to build a competitive workforce, it is imperative that we build a solid foundation.

THE WEEK AHEAD

Following a holiday weekend for most, investors will face a multitude of economic and earnings reports.

Economic data will likely take a back seat to earnings news, but a handful of releases bear watching. The advance release of Gross Domestic Product for the first quarter will be released on Thursday. Economists' estimates continue to be ratcheted down due to the dampening effect of soaring fuel costs. On Friday, personal income for March will be announced.

The Federal Reserve meets on Tuesday and Wednesday but there is no expected change in either interest rate policy or the Fed's asset purchase program. For the first time, Chairman Bernanke will hold a press conference after the interest rate

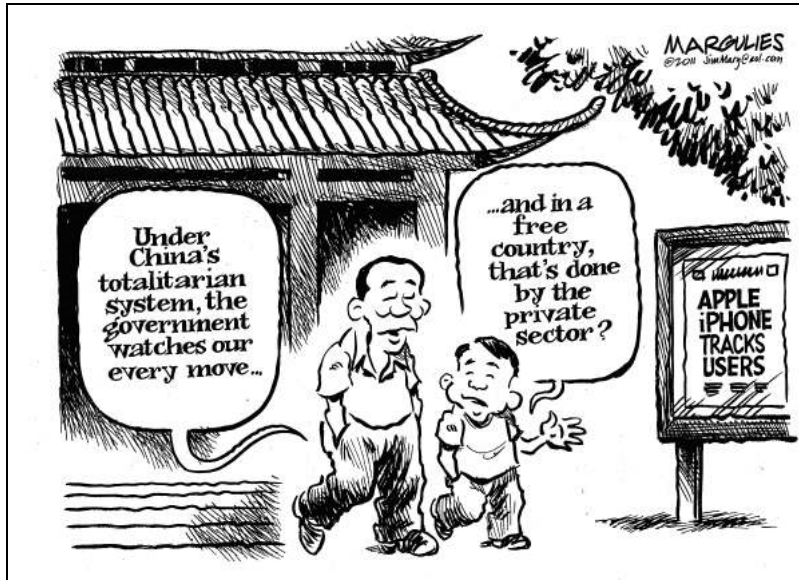
announcement to provide additional clarity about the Fed's thought process.

The US Treasury Department will hold several auctions this week, including \$35bln of 2-year notes (Tuesday), \$35bln of 5-year notes (Wednesday) and \$29bln of 7-year notes (Thursday).

Earnings reports around the globe will play a large part in determining market movements this week. A few of the most important releases to watch include Kimberly Clark, Nintendo, Amazon.com, Coca-Cola, Hershey, UPS, US Airways, Boeing, BP, ConocoPhillips, Credit Suisse, Starbucks, Volkswagen, Deutsche Bank, Exxon Mobil, Microsoft, Thomson Reuters, Caterpillar, Chevron, Daimler and Merck.

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LIGHTER SIDE



Source: Jimmy Margulies

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