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Market Week: July 21, 2014

The Markets

U.S. stocks dropped sharply Thursday in response to the downing of a Malaysia Airlines commercial jet over Ukraine and the Israeli ground invasion of Gaza. However, most indexes bounced back Friday to end another week in positive territory. The exception was the Russell 2000 Index, which continued its decline perhaps aided by Fed Chairman Janet Yellen's comments earlier in the week indicating that valuations in some small-cap sectors appear "substantially stretched." Treasury yields dropped last week, while gold ended the week about 2% lower.

Market/Index	2013 Close	Prior Week	As of 7/18	Weekly Change	YTD Change
DJIA	16576.66	16943.81	17100.18	.92%	3.16%
Nasdaq	4176.59	4415.49	4432.15	.38%	6.12%
S&P 500	1848.36	1967.57	1978.22	.54%	7.03%
Russell 2000	1163.64	1159.93	1151.61	-.72%	-1.03%
Global Dow	2484.10	2599.40	2622.25	.88%	5.56%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	3.04%	2.53%	2.50%	-.03 bps	-.54 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Last Week's Headlines

- Stocks tumbled Thursday in response to two major geopolitical events, the downing of Malaysia Airlines Flight 17 over Ukraine and Israel's ground invasion of the Gaza Strip. Treasuries yields dropped and gold futures rose as investors sought safer havens.
- Retail and food sales rose 0.2% in June and were 4.3% higher than a year earlier. However, the Commerce Department does not adjust the numbers for price increases such as those seen in food costs in the last several months; not counting autos, which were down 0.3%, other retail sales were up 0.4% for the month.
- The Federal Reserve's "beige book" report said most districts expect a continuation of generally steady growth seen at the end of last year. All districts reported year-over-year gains in manufacturing, and most also said retail sales had increased since the last report.
- Wholesale prices rose 0.4% in June, putting the wholesale inflation rate for the last 12 months at 1.9%. The Bureau of Labor Statistics said almost all of the monthly increase was the result of a 2.1% jump in energy costs resulting mostly from higher gas prices.
- Housing starts dropped by 9.3% in June from the previous month, according to a joint release issued by the U.S. Census Bureau and the U.S. Department of Housing and Urban Development. The decrease stemmed from a nearly 30% drop in the South, where unusually wet weather hampered construction efforts. Other regions reported increases, including the Northeast, which was up 14.1%, and the



Key Dates/Data Releases

- 7/22: Consumer inflation, existing home sales
- 7/24: New home sales
- 7/25: Durable goods orders



Midwest, which rose 28.1%. Year-over-year, the index is up 7.5%.

- Manufacturing data was generally positive. The Federal Reserve said U.S. manufacturing output was up for the fifth straight month, while a 0.2% gain in industrial production meant production was up an annualized 5.5% during Q2 2014. Also, the Federal Reserve's Empire State manufacturing survey rose for the third straight month, hitting its highest level in more than four years (25.6). The Philadelphia Fed Survey reported similar results. The index rose to 23.9 this month, its highest point since March 2011.
- The Conference Board Leading Economic Index rose 0.3% in June. Ataman Ozyildirim, a Conference Board economist, noted that increases over the last six months indicate an improving economy, which might even accelerate a bit in the second half. "Housing permits, the weakest indicator during this period, reflects some risk to this improving outlook. But favorable financial conditions, generally positive trends in the labor markets and the outlook for new orders in manufacturing have offset the housing market weaknesses over the past six months," he said.
- The Justice Department announced that Citigroup had agreed to provide \$200 million worth of financing for new affordable rental housing as part of a \$7 billion settlement for misrepresenting mortgage-backed securities it packaged and sold leading up to the 2008 financial crisis. The agreement also includes a \$4 billion civil penalty that the Department of Justice said represents the largest settlement under a federal law enacted as a result of actions by thrifts and savings and loan institutions in the 1980s.

Eye on the Week Ahead

This week, investors will likely keep a close eye on continuing geopolitical developments, as well as domestic reports on consumer inflation, existing and new home sales, and durable goods.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. Market indices listed are unmanaged and are not available for direct investment.

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Given the recent events impacting investors and their financial security, we would welcome the opportunity to provide a second opinion for anyone who would like to have a check-up on their investments, financial plan or estate plan. If you know of anyone who may have a concern with their current advisor or current investment portfolio, we encourage you to share our contact information with those that could benefit from a complimentary review.

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