ECONOMIC HIGHLIGHTS

U.S. New Home Sales came in at a 571,000 average annual rate for July, and have averaged around 600,000 units on an annualized basis over the past few months. Prices were up 0.7% for the month, and were up 6.3% year-over-year. Existing home sales were down 1.3% for July, but still up 2.1% year-over-year. In several markets there is an issue of limited supply in existing home markets. Finally, Durable Goods Orders were down 6.8% for July but still up 4.2% for the year ended July.

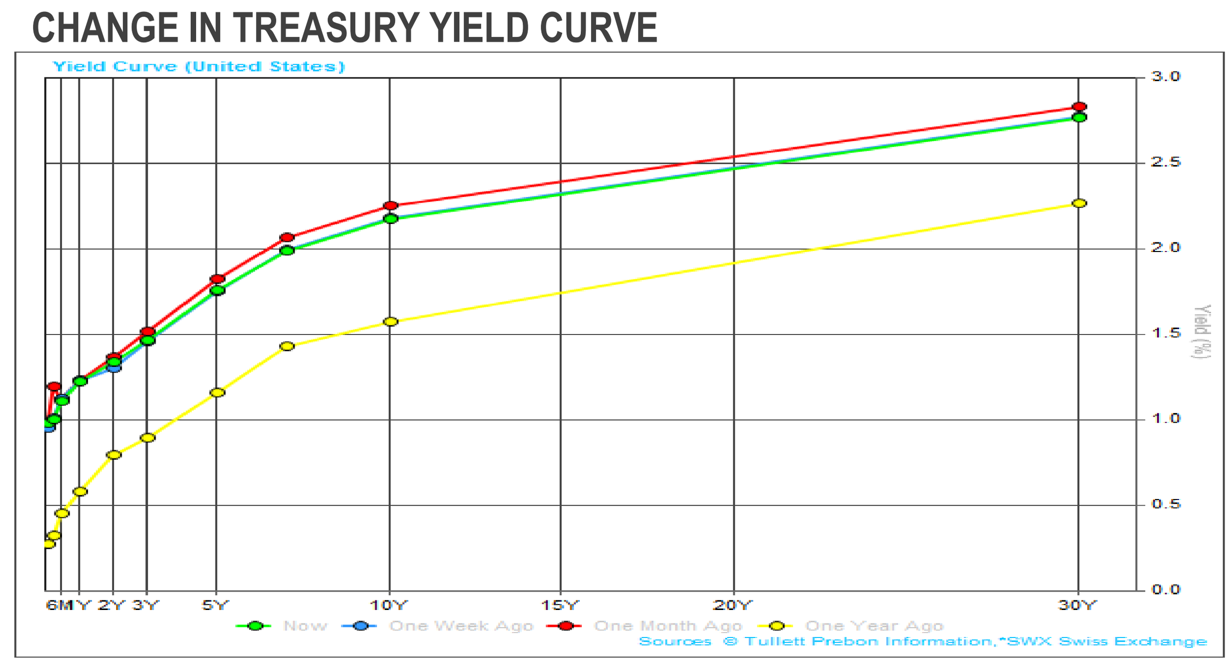
FIXED INCOME

The Treasury bill yield curve says the probability that the U.S. government won't raise the debt ceiling in time to avert a technical default, which is a failure to make an interest payment on time, is about 15%. That's based on a simple formula that looks at the elevated yields on bills that mature around the time the government is expected to exhaust its borrowing authority in mid-October, compared with the yields on bills due before and after. Bills due in late September and early November yield around 1%. Until a couple of months ago, so did bills maturing in mid-October. Since then, mid-October yields have climbed into the 1.10% to 1.15% range, approaching yields on bills due a year from now. "Assuming there won't be anything else going on in the economy, in principal those yields should also be in the 1% range," said Niso Abuaf, who heads the financial strategy group at Ramirez and Company in New York. "From that, you can deduce a default probability." The divergence accelerated last week after President Donald Trump threatened a government shutdown if Congress doesn't fund a border wall. Markets viewed the threat as complicating prospects for a debt-ceiling agreement, even as congressional leaders pledged to avert payment delays. The debt ceiling stands at $19.8 trillion. The government has been using extraordinary measures to stay under it since March, and is expected to exhaust those sometime between late September and early November. Uncertainty about tax payments and any government shutdown make it impossible to determine exactly when. Standard and Poor's Global Ratings downgraded the U.S. rating in August 2011 amid debt-ceiling negotiations that threatened to delay interest payments.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.00%	3 mo	1.03%	3 mo	1.30%	3 mo	6.22%
6 mo	1.11%	6 mo	1.04%	6 mo	1.38%	6 mo	0.67%
1 yr	1.23%	1 yr	1.16%	1 yr	1.45%	1 yr	0.72%
2 yr	1.33%	2 yr	1.41%	2 yr	1.66%	2 yr	0.85%
5 yr	1.76%	5 yr	1.68%	5 yr	2.24%	5 yr	1.27%
10 yr	2.17%	10 yr	2.57%	10 yr	2.99%	10 yr	2.05%
30 yr	2.75%	30 yr		30 yr	3.82%	30 yr	3.28%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.71%	12.22%
S&P 500 (Large Cap)	0.75%	10.58%
S&P 400 (Mid Cap)	1.01%	3.91%
Russell 2000 (Small Cap)	1.46%	2.31%
NASDAQ Composite	0.80%	17.32%
MSCI EAFE (International)	0.85%	17.51%
iShares Real Estate	2.02%	6.95%

The S&P 500 rebounded from the prior two weeks of losses finishing the week with gains – U.S. mid and small cap stocks along with international equities also ended the week higher. Crude oil declined and gasoline prices rallied as Hurricane Harvey headed toward the Texas Gulf coast and its oil refining facilities.

Grocers fell on Friday after Amazon received the go-ahead to proceed with its planned purchase of Whole Foods, which is expected to close Monday of this week. The company also announced its plans to reduce prices and offer discounts at Whole Foods locations. Kroger and Supervalu both declined on the news.

The decline in grocers helped weigh down the Consumer Staples sector making it the only one of the major eleven groups to fall. Real Estate and Telecom were the two best performing sectors, both rising by over 2%.

We noted in these comments that we are about halfway through the historically weak August/September period for stocks. According to data from Bespoke, over the last 100, 50, and 20 years the Dow Jones Industrials has averaged a decline for that two month span. This two month period has also historically been the most volatile period of the year. The S&P 500's average absolute daily percentage change normally picks up significantly during the Third Quarter before falling hard in November and December.

For the week ahead Best Buy and Dollar General are two of the notable retailers that will be reporting results. So far this earnings season results from the group has been a mixed bag. Friday marks the release of August employment numbers which will be one of the few economic reports of note set to be released. Posturing and speculation will continue to abound as lawmakers seem to be turning their attention to both a tax deal and a new round of debt ceiling debates which will take place after the current recess ends.

ASSET ALLOCATION

CURRENT SENTIMENT	
Cash	Neutral
Short Fixed Income	Neutral
Intermediate Fixed Income	Neutral
Inflation-Adjusted Fixed Income	Unfavorable
High Yield Fixed Income	Neutral
International Fixed Income	Neutral
Equity Income	Favorable
Large Cap Equity	Favorable
Mid Cap Equity	Favorable
Small Cap Equity	Neutral
International Equity	Neutral
Emerging Markets Equity	Favorable
Real Estate	Favorable
Commodities	Unfavorable

Below is a summery of our current stance on most asset classes:

Cash - Holding as little as possible given the miniscule yields in money market instruments. Any exposure is for defensive positioning.
Short Term Bonds - Relative to Intermediate Bonds, the reduced duration is preferable given the outlook for higher interest rates.
Intermediate Term Bonds - The current trading range of intermediate bonds warrants a neutral position with limited upside potential. Some opportunities still remain present in spread products.
Inflation-Adjusted Bonds - Low inflation expected in near-term providing zero real return.
High Yield Bonds - Spreads have tightened; however, still remain attractive versus Treasuries.
International Bonds - Emerging market bonds offer good diversification qualities while providing higher yield opportunities relative to domestic fixed income.
Equity Income - High quality and higher-dividend-paying companies remain attractive for long-term investors given their favorable risk-adjusted profile and current yield curves.
Large Cap Stocks - A favorable weighting is recommended. Growth has reemerged as a more favorable style and should be overweighed versus Value.
Mid Cap Stocks - Mid cap exposure along with a value tilt is preferred. Mid cap stocks continue to provide the "sweet spot" of market capitalization - large enough to provide stability, but small enough to be more nimble.
Small Cap Stocks - In broad market corrections, small cap stocks will suffer most with increased volatility. However, a recent divergence of relative strength between small caps and large caps warrants a neutral exposure.
International Stocks - Given most foreign investment is in developed markets and European countries, until sovereign debt concerns are alleviated, an underweight to neutral weight is recommended.
Emerging Market Stocks - Stronger balance sheets, less debt, and better growth potential make emerging markets more fundamentally attractive than developed countries longer-term. Recent relative performance versus developed markets support the stronger fundamental backdrop and positions have been added.
Real Estate - Pricing has stabilized and long-term valuations appear attractive. Real Estate has performed well of late and should continue to be a strong alternative to other asset classes.
Commodities - Global demand should support higher prices if the global recovery remains on track. Although, volatility will be higher and commodities will be susceptible to short-term price shocks, if used in conjunction with other asset classes, risk can be reduced substantially to a diversified portfolio. However, used alone is not recommended as the short-term outlook is not favorable.