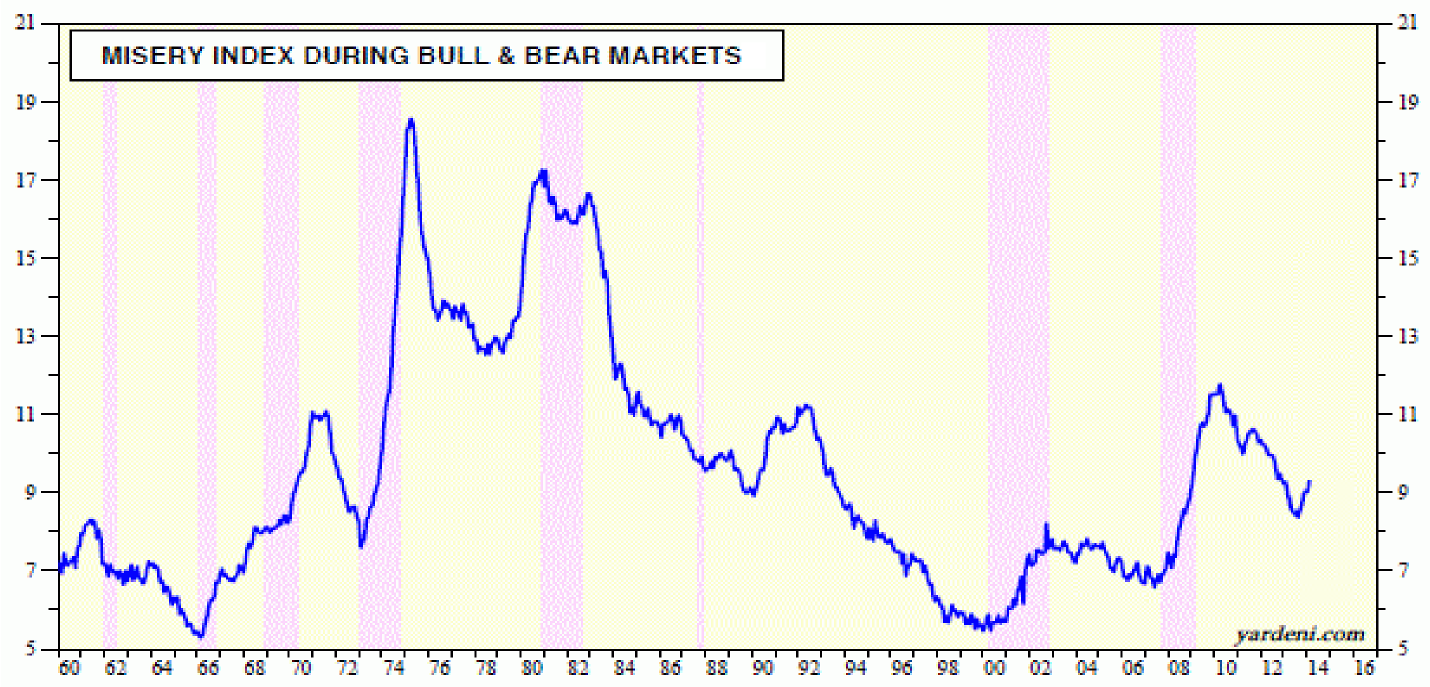
CHART OF THE MONTH

AUGUST 2013

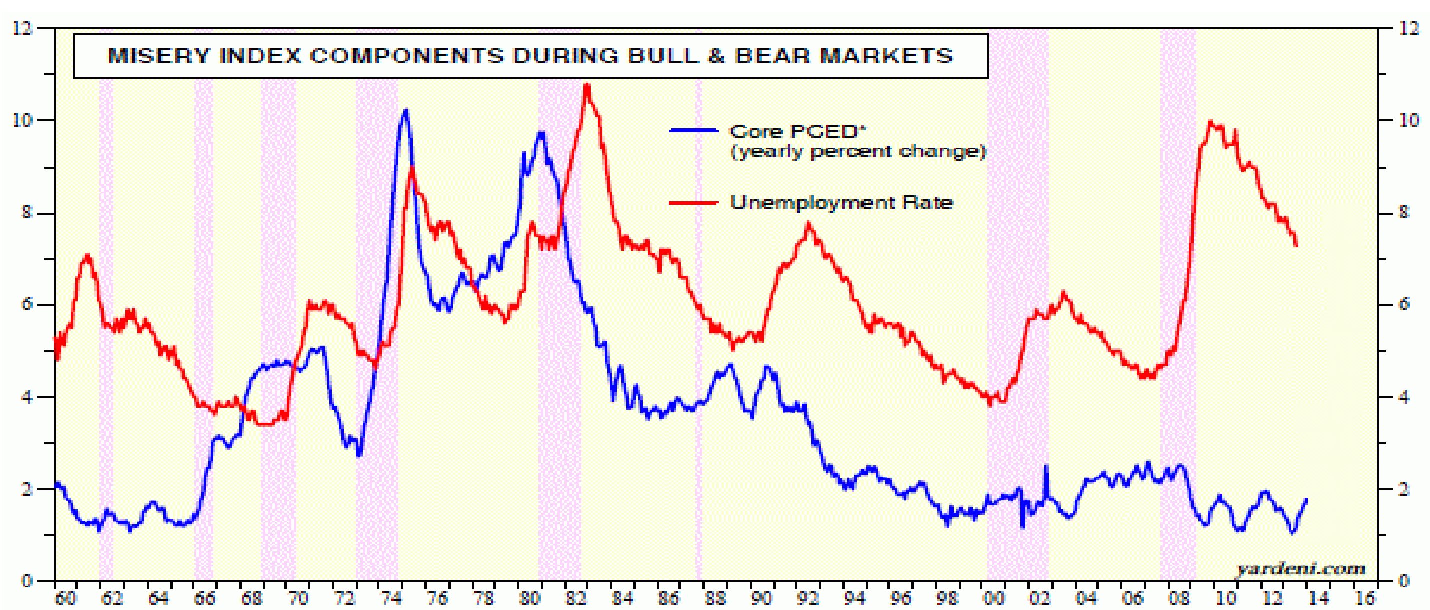


The misery index, created by economist Arthur Okun during the Lyndon Johnson administration, was designed to measure the economic health of the country by adding the inflation rate and the unemployment rate. Both the magnitude and direction of the index are important in gauging the economy. A high or rising sum suggests a weak or worsening economy. Conversely, a low or falling sum suggests a strong or strengthening economy.

Importantly, as shown in the chart above, the misery index has a powerful correlation with the stock market. The yellow areas reflect bull markets while the pinkish bars show bear market declines of 20% or more. Not surprisingly, the index is generally declining during the good times and increasing during the bad.

The index stands at 9.36% as of the most recent readings in July. As presented below, the unemployment rate (7.40%) is still high but moving in the right direction while the inflation rate (1.96%) is low but perhaps on the cusp of ticking upward. Of note, the index is down from a recent peak of 12.87% in September 2011 but up from its low of 8.56% two months ago.

Along with the shape of the yield curve (which was examined last month), we will continue to monitor the misery index for any signs that the four-year-old recovery is slipping into recession or a bear market.



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