CHART OF THE MONTH

MAY 2011

The Commerce Department announced earlier this week that the Gross Domestic Product (GDP) for the first quarter of 2011 was unrevised at an annual rate of 1.8%. GDP fell short of consensus expectations in the low-2s and decelerated from the 3.1% pace in the fourth quarter. The economy has now grown 2.3% over the past year.

While the rate of economic activity is below the Federal Reserve's prior projection of 3.1% to 3.3% for 2011, history suggests that the stock market actually prefers modest over rapid growth. The market performs best when the economy is neither too hot nor too cold. The "just right" Goldilocks sweet spot has ranged between 2% and 3% since the mid-1950s.

As shown below, the Standard & Poor's 500 has generated an average total return of 13.8% in the 11 years in which real GDP grew between 2% and 3%. Of note, the performance has ranged from minus 10.7% in 1957 to plus 37.1% in 1995. Nine of the eleven years produced positive results with a median total return of 15.1%. With the S&P 500 up 6.5% year-to-date, the index is tracking about right in line with the norm for this moderate level of economic growth.

We'll take Goldilocks over a third bear (market) in the past decade anytime.

Year	Real GDP	S&P 500 Total Return
1956	2.0%	6.5%
1957	2.0%	-10.7%
1960	2.5%	1.5%
1961	2.3%	28.1%
1967	2.5%	25.0%
1981	2.5%	-4.9%
1993	2.9%	10.1%
1995	2.5%	37.1%
2003	2.5%	28.7%
2006	2.7%	15.2%
2010	2.9%	15.1%
Average	**2.5%**	**13.8%**

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