

LOOKING BACK AND LOOKING AHEAD

IT'S NOT ALL BAD NEWS

- Markets bounce back, and usually a lot.** Since 1972 the Standard & Poor's 500 Index has posted a negative monthly return of more than 10 percent only seven times (see below). Twelve months later, however, the market had delivered a healthy annual gain six out of seven times. In every case, the index posted positive annualized returns over the next three years. It's not clear where the S&P will be one or three years from now but history leaves us with a positive feeling about how things might turn out.
- Companies have record balance sheets ...** Large-cap companies in particular have hoarded cash since 2008. S&P 500 companies would be able to buy 56 percent of the market cap of the Russell 2000 Index if they were to put their excess cash to work in the form of M&A, according to a springtime Credit Suisse report.
- ... and many are returning cash to investors.** Companies are giving some of that money back to investors. Year over year, dividend increases in the second quarter were up nearly one-third over May 2010 levels, according to Standard & Poor's. Those increases put \$11.2 billion of tax-advantaged payouts in investors' hands. Companies paid out \$30.0 billion in dividends through June 30 of this year: a figure that already surpasses the \$26.5 billion paid in all of 2010!
- Earnings, revenue reports have been strong.** Leaner companies remain able to grow. For their most recent quarters, about 75 percent of S&P 500 companies issued earnings reports that beat consensus earnings estimates. Further, roughly 60 percent exceeded revenue estimates.

The Standard & Poor's 500 Index

Month	Return	Next 12 Months	Next 3 Years (Annualized)
November 1973	-11.1%	-23.8%	6.5%
September 1974	-11.5%	38.1%	20.0%
October 1987	-21.5%	14.8%	10.2%
August 1998	-14.5%	39.8%	7.1%
September 2002	-10.9%	24.4%	16.7%
October 2008	-16.8%	9.8%	9.5%*
February 2009	-10.7%	53.6%	23.6%*

*Return periods less than three years are annualized period-to-date total returns as of Aug. 9, 2011.

All investing involves risk and you may incur a profit or a loss. *Past performance is not a guarantee of future results.*

The S&P 500 Index measures changes in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividends reinvested. The S&P 500 represents approximately 75% of the investable US equity market. Indices are not available for direct investment.

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