Fourth Quarter 2011

Perspectives on events of the past year, and of the year to come

There is no question that we should be relieved that 2011 is over. The Japanese earthquake and subsequent tsunami began the year, followed by the Fukushima nuclear disaster, the worst nuclear incident since Chernobyl in 1986. The only upside of this tragedy is that parts for Japanese cars were so scarce that all three US automakers profited from Japan's woes.

Just as we started to recover from the shock of Japan's plight, we watched as the Arab world experienced a massive movement to stop government suppression of human rights. This led to the resignation of Egypt's long term leader Hosni Mubarak and, with our help, the Libyan rebels captured and killed Muammar Gaddafi. Let us not forget the heroics of Navy Seal Team 6 and the demise of Osama Bin Laden. Although we should agree that the chances for democracy in the Arab world have increased, we must also recognize that the turmoil in the region has added more short term uncertainty to the markets, which has continued to impact the price of oil.

The summer brought us the tumult of a domestic political morass as Congress showed that neither party ever took Economics 101. This almost brought the market to its knees, when it became apparent that some members of Congress believed that it would be acceptable for the US government to default on its debt. This put a scare in the markets that is still difficult to shake off.

As if these problems were not enough to shake market stability for any one year, we then faced the European debt crisis. The euro, created as the central currency for the Euro zone countries, became a reserve currency in 1999. France, Germany, Spain, Italy, Greece, and others banded together to combine their economic might to compete with the US economy. This made each European country that participated stronger than it would it be by itself, however it also led to the problem that we see today. Small economies that are in severe economic stress can pull other countries into the fray; the possible failure of the sovereign debt of Greece and other European nations if not properly handled could cause the EU to fail.

Considering everything that happened in 2011, one would think that the markets might have seen another 2008 style meltdown. That did not happen: volatility last year was very high and markets were weak, but it could have been much worse. By year end our markets were nearly even and foreign markets were down much more than the domestic market, but in hindsight the bark was much worse than the bite.

More importantly, our economy is showing slow but steady improvement.

According to the Bureau of Labor Statistics 200,000 new jobs were created last month and 1,600,000 net new jobs were created in 2011. The unemployment rate has fallen for four consecutive months. No one should confuse this with a great recovery; however it is much better than what was predicted as recently as July of this year. The talking heads are no longer predicting a double dip recession and as profits of US companies continue to grow, the outlook for US stocks seem brighter than what was predicted just a short time ago.

High quality dividend paying stocks are still yielding more than high quality bonds, and with interest rates so low, we feel that money will continue to leave the sidelines and prop up the markets.

As always, we are concerned more about risk control and the focus on the long term. We are also well aware that your money must be managed to protect your purchasing power, not just your principal. Based upon the Bureau of Labor Statistics data, we feel that the potential for US markets are looking much better than the gloom and doom from last summer. With that in mind, we will continue to tweak your investments to stay focused on the segments of the market that could help you reach your long term goals.

May 2012 be kind to you and yours, and may your future be bright.

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Fixed income investments are subject to various risks including changes in interest rates, credit quality, and other factors. Securities sold or redeemed prior to maturity may be subject to a substantial gain or loss. In general, the bond market is volatile as prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities.

Investors should understand that investing in strategies that are non-correlated to the stock and bond markets are not without risk. There can be no assurance that alternative investments will be profitable and will even outperform asset classes correlated to the stock and bond markets.