

Financial Market Commentary: 4th Quarter Summary and Year Review 2011

Muddling through uncertainty

Now that we are in the New Year, investors can reflect on what has been a flat year for most major markets compared to the favorable across the board returns gained in 2009 and 2010. The year 2011 wasn't the best of times nor the worst of times for the global markets, however volatility and uncertainty were plentiful. 2011 may be defined as a volatile trip to nowhere for most equity markets. Despite the mid-year volatility we learned the world wasn't going to end and the markets could muddle through the uncertainty.

Financial Market Review

Q1: A great start to the year

The 1st Quarter saw a 5.5% jump in the S&P 500. The quarter saw Egypt's President Mubarak resign amid the Arab spring revolt, a tsunami in Japan which sparked a nuclear disaster, and the three major US equity indices average a positive 6% return. The MSCI EAFE and EM indices also posted respectable returns in Q1, up 2.5% and 1.3% respectively.

Q2: The bulls succumbed to the bears

The 2nd Quarter saw the markets muddle along with the S&P 500 returning a negative 1.36%. During the second quarter, oil peaked at \$113.93 a barrel, unemployment in the US reached 9%, quantitative easing part two (QE2) ran its course and the S&P 500 hit its closing high for the year at 1364 on April 29.

3Q: Challenging for many asset classes

The 3rd Quarter saw Greece receive a \$142 billion bailout as the euro-zone crisis spread, the United States Congress finally strike a debt-ceiling deal to avoid a default, Standard & Poor's strip the U.S. of its triple-A debt rating, gold futures peak at \$1,891 per ounce and the first gathering of the Occupy Wall Street movement. The quarter concluded with a decline of 15.50% in the S&P 500 and was dominated by increased volatility and a global flight to quality. Most risk assets suffered with the Russell 1000 posting a 14.68% loss, the MSCI EAFE fell by 19.60%, the DJ US Real Estate Index had a 15.33% loss and the BarCap US High Yield Index fell 6.06%. Meanwhile, "quality" assets such as the BarCap Global Aggregate Bond Index and the BarCap US Aggregate Bond Index gained 0.97% and 3.82% respectively. For the quarter, the Volatility Index (VIX) or "fear index" increased from 16.52 to 42.96, hitting an intra-quarter high of 48 on August 8th. To put this in context, the VIX reached 81.48 when Lehman Brothers collapsed in September of 2008.

4Q: A quarter of epic returns

The 4th Quarter began with a reversal of the summer's misfortunes as equity and riskier fixed-income investments performed best. News of a euro zone deal, positive U.S. economic data and upbeat corporate earnings reports eased fears that the U.S. was on a brink of another recession. Investors welcomed this news and the S&P 500 returned 10.93% in October which ranks as the 24th best monthly return in the history of the S&P. November saw the previous month's optimism dissipate as the euro-zone troubles continued and the U.S. Super Committee failed to reach an agreement to reduce the U.S. budget deficit. In the euro-zone, Greece's Papandreou and Italy's Berlusconi resigned as confidence in their leadership waned. A plan to instill confidence in the European banking system finally came the week before Christmas when the ECB granted \$630 billion in three-year loans to banks across the European Union. This helped calm the global markets going into year-end. The fourth quarter witnessed its share of volatility, however going into year-end the markets maintained composure and most asset classes were able to post a positive return. For the quarter, small and medium-cap stocks outperformed large-cap stocks, domestic equity outperformed international equity and risk assets outperformed safe assets. The Russell 2000 returned 15.47% versus 11.84% for the Russell 1000 and 4.08% for the MSCI EAFE. High yield and emerging market bonds posted 6.46% and 6.38% respectively versus 0.23% and 1.12% for Global and US bonds.

Outlook and Strategy

As we look forward into 2012, uncertainties are plenty. Global debt problems remain and with it political uncertainty. Entitlement spending needs to be addressed and tax cuts in the U.S. expire at the end of the year. Despite these issues we remain optimistic for a positive 2012 because of the growing cash reserves held by many U.S. Corporations, and the budding middleclass in emerging economies, "muddling through" may be the best we can expect for most of the year.

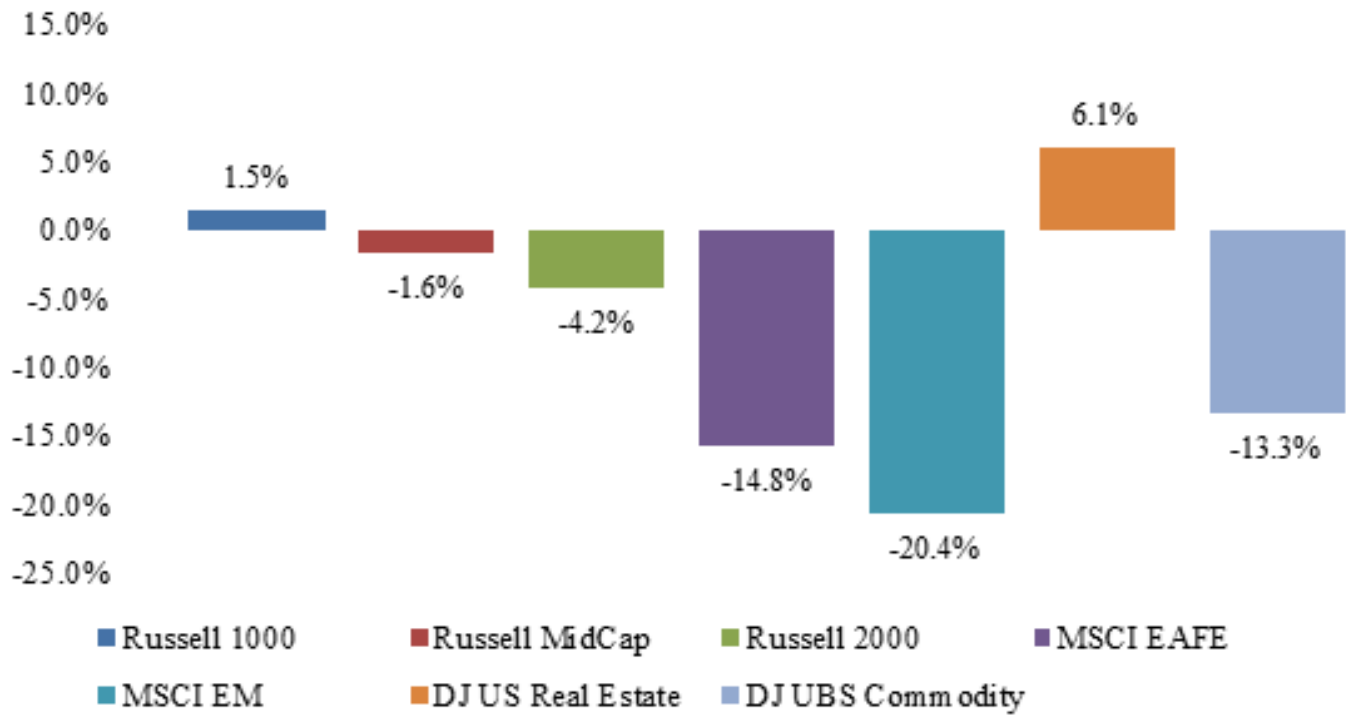
We continue to monitor your portfolios to make sure they are aligned with your long-term investment goals. We stand firm to not make recommendations or changes "looking in the rear-view mirror." Stocks were losers to bonds in 2011, as were small and mid-cap stocks to large-cap stocks and international equities to domestic equities. 2012 is a new year and unforeseen circumstances are bound to happen, however a diversified portfolio aligned properly with your investment objectives is and will always be our investment advice.

We look forward to a prosperous New Year for you and your family, and certainly for your investment portfolio.

Disclosure: Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Free Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Barclays Capital Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Barclays Capital government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Barclays Capital U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.



Year 2011 Performance - Equity



Year 2011 Performance - Fixed Income

