

**2011 Year-End
Market
Performance*****S&P 500**
2.11%**Dow Jones**
8.38%**NASDAQ**
-0.83%**MSCI EAFE**
-12.14%**BarCap US
Aggregate Bond**
7.84%**Morningstar
Large Cap Core**
3.40%**Morningstar
Mid Cap Core**
2.22%**Morningstar
Small Cap Core**
-4.74%

**Market Data
supplied by
Morningstar and is
through 12/31/11.
All returns are with
dividends
reinvested.*

Even though the S&P returned a modest 2.11% in 2011, it was anything but boring. In fact it was an unprecedented year for volatility which made investing for even the most experienced money manager quite difficult. Corporate America once again had a very strong year with continued earnings and revenue growth but there was continual disappointment and unfortunately a broad questioning of the aptitude of government policy makers both in the US and abroad.

It appeared that every time we felt a calm start to emerge another event threatened markets. The Arab Spring uprising, the European debt crisis, the natural disasters in Japan and Thailand, and inflation problems in the emerging market sector weighed on international markets causing them to underperform US stocks by a wide margin. Without a doubt the biggest news item of 2011 from a market perspective was the resurfacing of the European debt crisis. This ongoing problem dominated the headlines for most of the second half of the year.

The good news is that the European Union (EU) didn't implode. The real concern was that the government debt crisis would spread to the banks and become a full blown banking crisis, which in turn would affect banks all over the world. Even though nothing really has been solved, it is generally thought that the issues aren't as critical as once thought. In fact, most would agree that time is the EU's friend and that each day they can prevent the worst from happening brings them one day closer to finding a true solution. Even though things may flare up from time to time we believe the EU, European Central Bank (ECB) and the International Monetary Fund (IMF) will not let the worst happen.

Just in the last quarter the ECB introduced a lending facility to banks whereby they can borrow money at 1% for up to three years. This has done wonders to quell liquidity fears and although it doesn't address the core of the problem, it buys more time and for now at least, prevents this from turning into a banking crisis. The truth is that it will take a few years to solve, and so short-term fixes are what we can expect. We'll watch it diligently as we move through the first half of 2012.

Our last quarter's StraightTalk intimated that the fourth quarter could produce better returns as everything pointed to strong earnings from corporate America. In fact the S&P rebounded in the 4th quarter of 2011 with an 11.82% gain and while the European situation still remains bothersome the fundamentals are still strong and we believe that markets over the next few quarters will continue to improve.

As always it is our job to try and invest in areas that have even the slightest advantage relative to all others - essentially finding ways to stay ahead of our benchmarks. Although we are not always right on the timing, we feel very comfortable with the directions we take. As such these are some sectors we believe will once again make a difference for you: **1) US Stocks** - These companies are still generally undervalued and have the potential for a good run ahead, with strong supplies of cash, improvement in the labor market and strengthening consumer sentiment. **2) Emerging Markets** will improve as we think the bad news is already priced into these markets. **3) Diversify Fixed Income and Stay Safe** - While rates will stay low for a while we need to be careful to stay mindful of undue risks by lengthening maturities or accepting more credit risk. Spreading to municipals, mortgage backed securities, and investment grade corporate paper makes sense. **4) Commodity and Energy** - we feel that these sectors will continue to be a good holding but will not add any to our portfolio at these prices. **5) Markets Improving** - With expectations set quite low we believe there is a chance for a surprise to the upside - we believe that the S&P could exceed 10% this year.