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QUARTERLY

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2011 4th Quarter Review

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Well, that was a lot of hard work and emotion spent in one year for nothing; nothing being 0%. That's correct, 0%. Officially, for the 365 day period ending December 31, 2011 the Standard & Poor's 500 (S&P 500) changed in value by an unbelievable .04 points, from 1257.64 at December 31, 2010 to its recent year end close of 1257.60. Adding dividends to the equation the total return "jumps" to 2.11% for the year. The Dow Jones Industrial Average (DJIA), comprised of a narrower scope of thirty companies, did perform better with a 5.5% return. But, I think it's fair to say we were all left wanting for more in 2011.

Of course, during the year the market was anything but flat. After a favorable 9% rally in the first four months of the year, volatility became the norm for the balance of the year due to an onslaught of negative news. Such events included the devastating March 11th Japan earthquake and tsunami, the June 30th conclusion of the Federal Reserve's Quantitative Easing program (dubbed QE2), the Debt ceiling impasse in D.C. and related concern of a Treasury default, and the August 5th downgrade of U.S. debt by Standard & Poor's from AAA to AA+. All the while, market eyes were straining to define the depth and collateral impact of the European debt crisis. Ultimately, the European risks mounted to such a crescendo that on November 30th six of the world's leading Central Banks announced a coordinated liquidity injection to stabilize teetering European banks. Only seven times in the past 80 years have Central Banks acted in such a coordinated effort. Given all these challenging events, perhaps it was a victory that the market held its level.

Lending support to the market during last year's tumult was the resilience of the U.S. economy, which avoided a recession and is forecasted to grow 2.5% in 2012. Meanwhile, corporate earnings as measured by the 500 companies in the S&P 500 continued to grow and will be at an all time high for 2011. Current forecasts call for S&P 500 earnings growth of 16% for 2011 and 11% for 2012. Importantly, another investor bogeyman, inflation, remains subdued at less than 2% at the core level. Hence, while investor nervousness regarding aforementioned concerns is understandable, market underpinnings have rationally supported current price levels.

As we assess the current investment landscape for risks and opportunities in 2012, we see some shifting winds that we are tacking for optimal positioning. First, the U.S. dollar is strengthening for the first time since 2010, which will dampen earnings growth for most multinational companies. A stronger dollar will also create headwinds for U.S. investors owning foreign assets, although faster growing emerging markets may still perform well. Hence, we are keeping our international exposure at a minimum. We think the strengthening U.S. economy will present ample risk/reward opportunities in small and mid-cap sized companies. Consequently, we are positioning our portfolio with greater emphasis on domestic oriented companies, and certainly those that have solid growth qualities.

Our confidence is further bolstered by the combined cash on U.S. corporate balance sheets and U.S. private equity of $2.5 trillion that is seeking to invest in primarily U.S. public companies. We believe that this current idle capital will be aggressively redeployed in the market throughout the current year and beyond in the form of buyouts and mergers. With many companies trading at attractive absolute valuations, and attractive relative valuations to debt securities, it's only a matter of time before this money gets "spent". Like a rodeo bull waiting to be released, this idle cash is ready and able to help take investors for a bull ride.

We are honored to be the steward of your hard earned assets.

@ a glance

	9.30.11	12.31.11	% Change
DJIA	10,771.48	12,217.56	11.95%
S & P 500	1,136.43	1,257.60	11.15%
Nasdaq Composite	2,483.23	2,605.15	7.86%
Russell 2000	652.43	740.92	15.02%

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Upcoming Client Events

Please mark your calendars for our upcoming client events! Stay tuned for further information.

2012 Investment Outlook
Thursday January 26th

February Snowshoeing Outing
Friday February 24th

Women Client Event
Gems & Jewelry Appraisal Experience with Penn Fix of Dodson's Jewelers
Thursday March 29th

Take advantage of federal income tax changes

To keep pace with inflation, the IRS has widened the federal income tax brackets and increased certain exemptions, deductions and credits (see table below). For additional information, please visit the IRS website.

2012 Federal Income Tax Brackets

Marginal Tax Rate	Taxable Income	
	Single	**Married, filing jointly**
10%	$8,700 or less	$17,400 or less
15%	Over $8,700 but not over $35,350	Over $17,400 but not over $70,700
25%	Over $35,350 but not over $85,650	Over $70,700 but not over $142,700
28%	Over $85,650 but not over $178,650	Over $142,700 but not over $217,450
33%	Over $178,650 but not over $388,350	Over $217,450 but not over $388,350
35%	Over $388,350	Over $388,350

Boost your retirement and potentially enjoy tax benefits

As the table below shows, the federal government increased the maximum amounts you can contribute to certain retirement accounts.

2012 Federal Limits for Retirement Accounts

Account	Contribution Limit	Additional catch-up contribution for people age 50 and older
401(k), 403(b) and 457	$17,000	$5,500
SIMPLE IRA	$11,500	$2,500
QRP/Keogh and SEP-IRA	20% of net self-employment income (or 25% of compensation) up to $50,000	NONE
Individual 401(k)	20% of net self-employment income (or 25% of compensation) plus $17,000, up to $50,000	$5,500
Traditional IRA and ROTH IRA	$5,000	$1,000