

Financial Management Group Economic & Investment Outlook 2012

Investment Volatility and Uncertainty Often Presents Wealth Building Opportunities

During the ongoing economic and investment disconcertion that occurred throughout 2011, we professed that bad news can often produce good news events. This is because when foreboding news prevails, positive outcomes often manifest due to corrective actions being taken which would not have occurred otherwise.

For example, last year much of the media perpetuated the “Armageddon” negative noise about the U.S. debt ceiling and possible default. FMG maintained a stance that there would be a resolution to the debt-limit political debate, and that more responsible political, fiscal, and monetary actions would be forcibly implemented for positive outcomes. Indeed, U.S. Treasury debt posted some of the strongest positive returns on record, with most of the performance occurring during the second half of the year, *after* the S&P rating downgrade.

Many people become fearful during ominous economic and investment times, which often cause them to behave inappropriately as investors. Fear drives investors to run away when they likely should be moving forward, and immobilized when they should be taking informed positive actions. The chart below illustrates the returns for the various equity markets for 2011 and also highlights the 4th quarter returns demonstrating that upward surges can occur, often swiftly and unexpectedly.

Index	December	4 th Quarter	2011	Description
S&P 500 Index	1.02%	11.82%	2.11%	Large-cap stocks
Nasdaq Comp.	-0.58%	7.86%	-0.08%	Large-cap tech stocks
Russell 1000 Growth	-0.32%	10.61%	2.64%	Large-cap growth stocks
Russell 1000 Value	2.02%	13.11%	0.39%	Large-cap value stocks
Russell 2000 Growth	-0.22%	14.99%	-2.91%	Small-cap growth stocks
Russell 2000 Value	1.57%	15.97%	-5.50%	Small-cap value stocks
MSCI - EAFE	-1.21%	4.06%	-11.53%	International stocks

All returns are estimates as of December 31, 2011.

MISSION

To place our clients' interests first, to provide comprehensive financial planning and investment management, and to be a premier provider of innovative and timely strategies that ensure every client meets their established lifetime goals and objectives.

As is often the case, when consumer sentiment is low and news relative to world events is unsettling, equity markets bounce back, as was demonstrated by the fourth quarter performances of 2011.

We Expect Continued Investment Volatility and Economic Growth During 2012

Rather than being reactionary to daily news commentaries, we steadfastly remain emotionally detached from the day-to-day, and instead make proactive present moment investment management decisions based upon our own internally formulated economic forecasts.

For 2012, our expectation is that the overall global economy will experience positive growth, but it will be relatively slow with the European community being the most sluggish. The emerging economies, particularly within Southeast Asia and Latin America, are likely to lead the global growth because they are better positioned than ever to counter any potential economic headwinds, as well as having increased access to capital, an expanding middle class clamoring for goods and services, and comparatively strong balance sheets.

Economic challenges will persist in 2012, particularly within the Eurozone countries as they continue to evaluate solutions to stabilize the region and overcome a persistent debt crisis. Moreover, there's the ongoing political turmoil in much of the Middle East and the resulting uncertainty for oil prices being a concern for 2012, and beyond. However, given the negative investment performance experienced in 2011 by the international equities and their current low valuations, we expect a rebound to occur in 2012.

Within the U.S. we anticipate an agonizingly slow downward trend in unemployment despite the economic stimulus being provided from robust consumer demand for goods (particularly automobiles) and services, historic low interest rates, and increasing levels of business expenditures. Housing, while continuing to languish, is now starting to feebly resuscitate from its worst of times. With corporate earnings of U.S. companies now achieving record results, combined with their very high cash positions and undervalued stock valuations, domestic equities are positioned to perform well.

As disturbing world news events continue to unfold in 2012 and the domestic political rhetoric escalates as the November elections get closer, the volatility within the equity markets should be expected. However, this does not dampen our optimism for positive equity returns occurring and outperforming fixed income securities which appear relatively unattractive for the foreseeable future.

For 2012, we are committed to maintaining our current domestic and foreign equity overweighting for client portfolios, along with the corresponding underweighting to fixed income holdings. By maintaining a consistent exposure to a diversified array of asset assets, and making tactical shifts over and above periodic rebalancing and profit taking opportunities, we seek to add value to our client portfolios, especially during periods of elevated volatility. Also, by monitoring for tax loss harvesting opportunities in taxable portfolios our clients benefit from a lesser tax burden and thereby increased investment returns.

We look forward to discussing further with you our Economic & Investment Outlook for 2012. In the meantime, please feel free to contact us at any time.

Best regards,

The Financial Management Group Investment Policy Committee