



## A MESSAGE FROM YOUR INVESTMENT TEAM

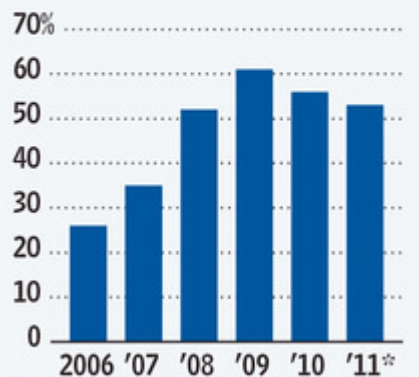
### 2011 Financial Markets Review

Dorothy A. Lewis, MA, CFP

By all accounts, 2011 proved to be a very volatile market. This volatility transpired for several reasons to include the prolonged European debt crisis, the Japanese earthquake, the S&P downgrade of the US debt rating, an unresolved and huge real estate problem that was paired with an 8.5% US unemployment rate which resulted in a very unstable economic climate. The stock market moved over 100 points either to the upside or the downside during 104 days last year, which is about 40% of the years' trading days. On October 3, the Dow closed at **10,655**. On October 31, it closed at **11,955** making it the 3<sup>rd</sup> best monthly gain in the 115 year history of the market!

### Game Changer

High-speed trading's share of total U.S. stock-market volume



\*Through August.

Source: TABB Group

## CURRENTLY AROUND 70% OF THE TRADES ON WALL STREET ARE TRANSACTED BY HIGH SPEED COMPUTER TRADING PROGRAMS.

Humans are way too slow to trade on the kind of opportunities that these markets are trying to capture. Think of the major banking investment arms, the hedge funds and other Wall Street big players who utilize the high speed programs. That is why the NYSE can be up 200 points in the morning and yet when the markets close at 1:00 PM PST, the final number can be in negative territory. No wonder individual investors felt like a ping pong ball this year. Regulators are beginning to look at high frequency algorithmic trading methods to make sure that all firms operate in a transparent and ethical manner as to not hinder the goals of individual investors.

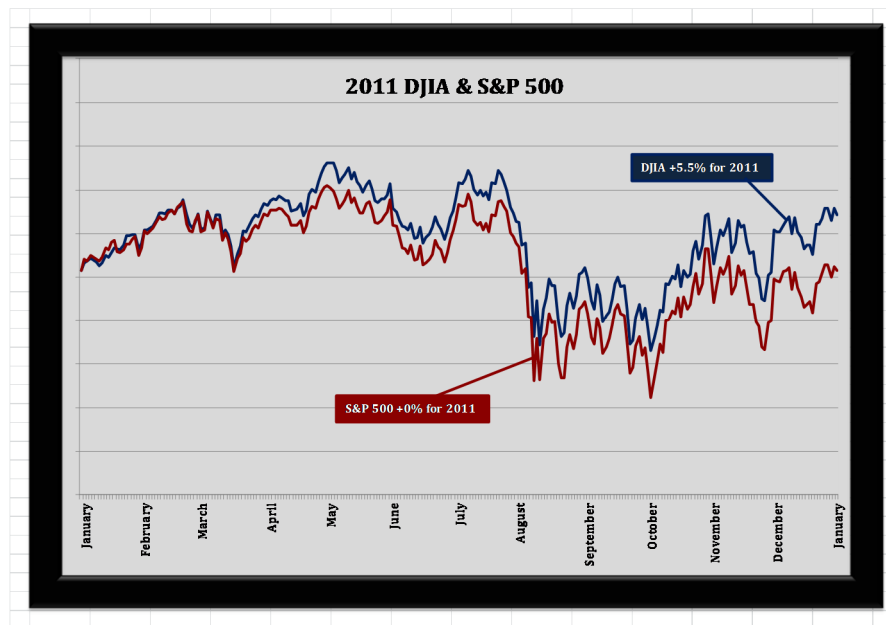


*A look at the 2011 market returns shows the US had a year of modest gains and minor losses.*

**S&P** No Change from 2010

**NASDAQ** - 1.8%

**DJIA** +5.53%



As you can see from the graph, *the market showed an overall positive trend for 4Q 2011*. The US economy seems to be picking up, inch by inch, as evidenced by US **Fourth quarter GDP which was up 3.3%**. In addition, December's jobs report showed the creation of **200,000 net new jobs**. December and January's economy seems to be picking slowly, and since pick-up trucks are being purchased again, this is viewed as a positive economic sign. The renewed purchasing of new trucks shows that business is expanding beyond current production levels.

**Outside the US, the economic climate was less than optimistic as shown by the following stock market returns**

**Great Britain** - 5.6%

**France** - 17%

**China** -22%



**Even though China's economy** continues to soften and returns this past year were slowed, the Great Recession has enhanced the case for **emerging markets**. Numerous emerging market companies are gaining global market share. Many US multinationals conduct a large amount of business in emerging markets, adding to their expansion. Even though returns for emerging markets were down in 2011, the emerging countries have economies that are growing at a faster rate than their developed country counterparts.




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## 2012 ECONOMIC OUTLOOK

We continue to face strong headwinds in 2012, which include an

unresolved financial crisis in Europe, an upcoming US presidential election, persistent levels of high domestic unemployment, and the Bush tax cuts sun-setting at year end. All of these elements make for a challenging investment environment. There is growing concern that Europe will slip into a recession and there will be spillover to the US and the rest of the world. We look to strong US dividend-paying companies and multinationals to cushion any fallout. Emerging markets remain one of our top themes for long-term investing, despite having suffered a



terrible year in 2011. Although China's economy is slowing, the country is trying to prevent a sharp slowdown. Last November, China's central bank cut the reserve requirements by 0.5 percentage point, which allowed banks to create new loans. In addition, China is aiming to reduce its reliance on exports and encourage domestic spending. Taking all of these measures into consideration may prove beneficial for equity investments.

**For 2012**, we foresee continued, but continued job creation and modest domestic economic growth. Corporate balance sheets are exceptionally strong and there is \$2 trillion of capital on the sidelines. Until we see a comprehensive solution to Europe's financial crisis and increased cooperation between parties in Washington, we anticipate more rough roads ahead and continued volatility in the stock market. In addition, during their January 24-25, 2012 meeting, the Federal Open Market Committee stated that interest rates will most likely remain low for the next couple of years.



## 2012 REMINDERS ...

- The Internal Revenue Service announced that taxpayers have until **April 17 to file their tax returns**. Taxpayers are encouraged to e-file because it is the best way to ensure accurate tax returns and faster refunds. You can also have your refund directly deposited into your local bank account, which is a much safer method.
- There will be no 1099s issued for taxable accounts with dividends or capital gains distributions of less than \$10 in 2011.
- **2011 Sales Tax Deduction:** If you bought a car, boat, motor home, or airplane or have home remodeling receipts, you still can deduct the sales tax on your tax return. This applies even if you did not keep all your sales tax receipts for 2011. The sales tax for the big purchases would be in addition to the IRS sales tax schedule.
- **Guaranteed Education Tuition (GET) Credits:** Washington State's prepaid college tuition program is open from November 1-May 31, 2012. With GET credits, college tuition is prepaid. The cost of one unit is \$163 and 100 units purchased guarantees one full year of college tuition in the future. For more information, go to [www.get.wa.gov](http://www.get.wa.gov). If you have further questions, please give our office a call and we can help you set up an account on line.

In closing, it is my wish that we all take the opportunity to appreciate the people that are important in our lives and all of our good fortunes and blessings. Just as was portrayed in the movie "Pay it Forward", if we could all do one nice thing each day for someone else, each of our worlds would be a better place.

All of us at Financial Insights would like to thank you for your continued trust, confidence and friendship. We wish you a Happy and Healthy New Year.

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