Strong 4th Quarter Returns offset some of the Economic Deleveraging And Political Paralysis that plagued 2011.

Although the economic outlook remains challenging, there were some signs of hope in the 4th quarter. A slight decrease in the unemployment rate coupled with an increase in consumer spending helped to drive up U.S. stock prices. In the quarter, the Standard & Poor 500 Index* returned about 11.8%. However, this index finished the year up only about 2.2%. The strong end of year returns were just enough to offset the 23% loss that occurred from May through October. According to the Lipper data** published in the WALL STREET JOURNAL, stocks in all major sectors and market cap sizes posted gains for the quarter. Small cap stock funds led the way, returning 13.5% to 17%, while midcap and large cap stock funds returned about 9% to 13%. While large cap "Blue Chip" stocks were slightly positive in 2011, small cap and midcap stock funds did not make it back to zero in spite of a great 4th quarter. For 2011, these funds were down from 1% to 4%. International stock funds lost about 13.3% in 2011.

> "The Bond Outlook is extraordinarily bad" – Jeremy Siegel, Professor of Finance, Wharton School 1/11/2012

The big surprise in 2011 was the performance of U.S. Treasury bonds, as many nervous investors continued to move assets to safety. 10 year Treasury Bonds returned about 17% last year, and 30 year Treasury bonds returned 35%. I did not anticipate these returns, but at least I was in good company. Neither did many bond fund managers, including Bill Gross at PIMCO.

The correlation of returns between asset classes increased in 2011, to levels not seen since the 1930's. At times during 2011, either everything you invested in seemed to work, or none of it did. The financial press referred to this as "Risk on/Risk off", as investors reacted in mass to the latest headlines. Target Date Retirement funds were criticized at year end for doing a poor job of protecting investors within a few years of retirement. While better performance is always welcome, these funds by design are very widely diversified. While this investment style weathers most storms most of the time, it did not do well in 2011 with investors rushing between asset classes. Although the mutual fund companies would like you to put 100% of your assets in a single target date fund, I would rather use these funds as a core holding, and build out the overall portfolio with more or less risk as needed.

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In 2012, we should watch the 5 “E”s. Europe, Economy, Earnings, Elections and Expectations. The big question is how much of what has gone wrong or might still go wrong has already been priced into the market? As I outlined in my last two quarterly reports, I am expecting the sluggish economic growth to continue in 2012. I expect stocks to outperform bonds, and I continue to prefer dividend paying, large cap stocks to holding a large cash position in a portfolio. I am hoping, but not yet confident, that we will see some “uncoupling” of the sovereign debt issues in Europe and our capital markets. Large U.S. companies are generally making money and are flush with enough cash to weather a slowdown in Europe. I expect higher than average market volatility to continue in 2012, making any attempt at market timing even less successful than usual. While every portfolio should be invested based upon the objectives, time horizon and risk profile of the investor, my current recommends lean toward an overweight of large-cap dividend paying stocks, shorter duration bonds, and an underweight in non-U.S. equities.

Now might be a good time to review all of your beneficiary designations. Life events that occurred in 2011 – births, deaths, marriages and divorces, may require you to update some paperwork, or even your will. Keep in mind, a beneficiary designation on a life insurance policy or a 401(k) or IRA account does not automatically change if you modify your will. In addition, in most cases a beneficiary designation will override intentions included in your will.

In my October report, I encouraged investors to visit my web site and use the problem solving tools to determine if their savings plan was on track. I am happy to report that many of you took my advice. Since that writing, my web site has had close to 2,000 new visitors, with 450 “clicking through” to use one or more of the problem solving calculators. Keep up the good work!

Dennis P. Lynch

The views and opinions expressed are those of Dennis Lynch as of 01/14/2012 and are subject to change based upon market conditions. Investment decisions should be based on an individual’s own goals, time horizon, and tolerance for risk. Past performance is not a guarantee of future results.

*The S&P 500 Index is a price weighted index of 500 actively traded stocks. Investments cannot be made directly into an index.

**Lipper, a division of Thompson Reuters, manages a mutual fund performance tracking and rating system. Lipper Indexes allow an investor to compare a particular mutual fund to other funds utilizing a similar investment style. A Lipper index is composed of the 30 largest funds of a given investment style. For more information about Lipper’s methodology, visit their web site at www.lipperweb.com/research/IndexComponents.aspx.