



January 2012

Happy New Year!

At the beginning of each year, you don't have to go very far to find someone offering their predictions for the financial markets and world economy for the New Year.

When I listen to someone's market predictions, first I check to see the track record of this person making predictions and think about any biases they may have.

For example, I listen to Bill Gross and others of PIMCO Funds discuss economic issues because I consider them quite competent and well-informed. However, they also run massive bond funds and it is in their interest to maybe overly scare investors away from stocks and into bond funds that they manage. So I take everything with a grain of salt.

Remember when banking analyst Meredith Whitney got on 60 Minutes and scared the public out of their wits by predicting that 2011 would be the year where we'd see 50 to 100 municipalities default on their bonds? Fear shook the markets and investors sold off municipal bonds. But... it didn't happen. Instead, municipal bonds became one of the top investment classes for 2011. Oops. In addition, municipal bond defaults actually declined in 2011 from 2010.



One of the most important lessons I've learned from 20+ years of doing this is that it is more important to keep your viewpoints flexible and don't be afraid to change your mind about how things are going. As we've seen in the past several years, things can radically change direction in a hurry.

2011 Review

The last half of 2011 looked completely different from the first half and involved much more volatility.

2011 was a productive year until the 3rd quarter. The S&P 500 crawled back up in the 4th quarter finishing close to where it started 2011. Many years from now, an investor may look at the flat return and conclude that it must have been a boring year. Well... not exactly.

The big slide in July was sparked by the Congressional wrangling over raising the debt ceiling. That on top of the European debt crisis gave investors reason to sell.



The direction of the markets continues to depend on how the European Union handles their debt crisis. So far it hasn't been particularly comprehensive. Instead we've had half measures. The markets have reflected that disappointment graphically.

Economists disagree as to the magnitude of the fallout if things go badly. There's no question that it is a very complex situation. And since the world economy is quite interrelated, there would be blowback on everyone else to some degree or another, directly or indirectly.

Conversely, if this situation is handled well, it could bode very well for stocks and many asset classes. So unless we have a crystal ball to figure out that one, we better just keep our eyes on it and be ready for anything this year.

Markets generally don't like uncertainty and we currently still have a lot of it due to Europe. I expect investors to remain quick to panic over bad news. We have an election this year which could have further ramifications for the markets.

The U.S. economic numbers continue to defy the extreme negativity held by so many. According to TradingEconomics.com, unemployment improved in December to 8.5% and the 4th quarter and the economy picked up steam in the 3rd quarter. Retailers reported wonderful sales this Christmas.

According to TradingEconomics.com, here are the standings for the top 10 countries based on the latest GDP figures for each country:

<u>Country</u>	<u>GDP Billion USD</u>	<u>Country</u>	<u>GDP Billion USD</u>
United States	14582	U.K.	2246
China	5879	Brazil	2088
Japan	5498	Italy	2051
Germany	3310	India	1729
France	2560	Canada	1574

Self Review

With the start of a new year and the general craziness of life, you may find it helpful to ask yourself these questions:

- Are you in control of your income, expenses and savings rate?
- Do you have a household budget?
- Are you saving enough to retire?
- If not already, are you likely to be debt-free by your retirement date?
- Has your investment portfolio become large than your debt?
- Are your wills and trusts current?
- Do you keep a list of accounts, phone numbers, pin numbers and passwords that your executor should know if something ever happens to you and do they know where to find it?
- Will your heirs be sufficiently taken care of if something does?
- Do you have enough life insurance, disability insurance or long-term care insurance?



If you need help with any of this, please contact me and let me help.

2011 Asset Class Performance

Here are some selected mutual fund classes, exchange traded funds (ETFs) and indexes in descending performance order through the 4th quarter of 2011 according to Morningstar. The categories in red were negative for 2011.

1. Long Gov't Bond
2. Long-Term Bond
3. Inflation Protected Bond
4. Muni National Long
5. iShares Gold Trust
6. Dow Jones Industrial
7. Real Estate
8. Intermediate Term Bond
9. High Yield Bond
10. S&P 500
11. Bank Loan
12. 6 mth CDs
13. Money Market Funds
14. Large Cap Value
15. NASDAQ Composite
16. Large Cap Growth
17. Small Cap Growth
18. Mid Cap Value
19. Mid Cap Growth
20. Small Cap Value
21. Technology
22. Bear Market
23. Japan Stock
24. Natural Resources
25. Europe Stock
26. Diversified Pacific/Asia
27. Emerging Markets
28. Latin America Stock



As always, remember that **past performance does not guarantee future results**. Also, looking at short-term performance can be quite misleading.

Remember all those years where the Latin America Stock seems to be stuck on the 1st position? How's that for evidence to support the above paragraph?

Gold actually fell back a bit from its 3rd quarter spike and fell in the rankings. However, Long Government, Long-term Bond, Inflation Protected Bond and Muni National Long all posted double digit returns in 2011.

The only asset classes in the above list to lose money in during the 4th quarter were Gold, Bear Market and Japan Stock. The biggest gainers in the 4th quarter were Small Cap Value, Real Estate, and Small Cap Growth.

The crosscurrents of shifting asset classes and overhanging European debt crisis made short-term trading exceptionally difficult in 2011. Markets seemed random some days making large moves on little news.

2011 was a year marked by market risk. Unique risk is the risk associated with an individual company or municipality. GE missing

Wishing you a Happy and Prosperous New Year!

Dennis



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