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Market Update for the Month Ending November 30, 2011

Presented by Sean Gross, CFP®, AIF®

Market volatility persists

Sustained market volatility in November confirmed our outlook that large swings in asset prices were likely to continue…

- Concerns over the worsening European debt crisis dragged the equity markets down.
- But a strong three-day rally at month-end—which saw the Dow Jones Industrial Average gain 7.35 percent and the S&P 500 Index rise 7.69 percent—reversed the sell-off. As a result:
  - The Dow gained 1.18 percent in November, leaving it up 6.70 percent year-to-date.
  - The S&P 500 finished down 0.22 percent. Year-to-date, it is up 1.08 percent.

Global markets and risk assets

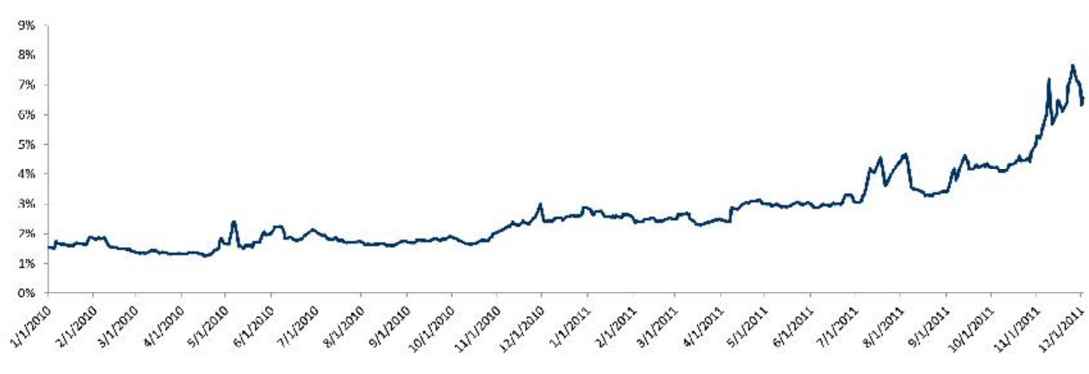
International equities fared similarly to U.S. stocks, although market movements were amplified…

- Financials, in particular, experienced extreme volatility due to European sovereign debt exposure.
- Despite the aforementioned rally, the MSCI EAFE was down 4.85 percent for November, leaving it 11.30 percent lower for the year.
- The riskier MSCI Emerging Markets Index lost 6.75 percent for the month; it's down 19.37 percent for the year.
- Higher-risk assets in fixed income also struggled:
  - The Barclays Capital U.S. Corporate High Yield Index was down 2.74 percent.
  - The more conservative Barclays Capital Aggregate Bond Index lost 0.09 percent.

Concerns over Europe's debt intensify

- European bond yields have risen to unsustainable levels—particularly in Italy (see below chart showing spike in Italy's interest rate).
- Because Italy's debt exceeds $2 trillion, it is extremely challenging for Eurozone leaders to find a solution that won't harm European banks or slow already anemic economic growth.

Italian 2-Year Government Bond Yield



Source: Bloomberg

- The central issue, however, is more of a fiscal problem than a monetary one, meaning it will have to be tackled by politicians, not by the European Central Bank.
- That said, on November 30, coordinated intervention by central banks helped inject liquidity into the Eurozone:
    - Global markets rallied sharply higher, and U.S. markets saw their biggest up day since March 2009.
    - It seems, at least for now, that investors are content with liquidity, even if the solvency of sovereign issuers remains in question.
- Longer term, it appears that Germany will ultimately be responsible for finding a solution:
    - Getting 17 Eurozone countries to agree on anything has been difficult, however.
    - And Germany, itself, is divided on how much assistance it owes to its fellow nations.
- Given these headwinds, we expect continued market disruptions to emanate from Europe.

Businesses cautious, mixed signals from consumers

A divergence appears to be developing in the U.S. economy…

- Consumers seem willing to spend:
    - Black Friday sales rose 6.6 percent over the prior year, to an all-time high.
    - Retail sales data has been strong.
    - "Savings fatigue" could be why Americans are spending despite negative headlines; this pent-up demand from the past three years could become a tailwind to U.S. growth.
- But with vivid memories of 2008, business management teams are showing signs of caution:
    - Investment in inventories was weaker than expected in the latter half of the third quarter.
    - Gross domestic product (GDP) estimates were revised down from 2.5 percent to 2 percent, annualized, as a result.
    - Manufacturing and CEO confidence surveys have also been conservative.

Nevertheless, our economy continues to toil along…

- Housing remains depressed, but manufacturing and employment have shown small signs of improvement.

European debt and economic worries are likely to continue to drag on investor confidence…

- Bloomberg consensus estimates are for GDP to grow just 0.5 percent in the Eurozone in 2012.
- Austerity measures have already pushed some periphery countries, like Portugal, into recession.

Year-end housekeeping

- With the holiday season upon us, investors may find it difficult to focus on their investments and financial plans.
- Yet, the current environment may present some opportunities for investors to realign their portfolios or even to harvest losses to help ease the tax burden.

Disclosure: *Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Free Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and* *those shares in otherwise free markets that are not purchasable by foreigners. The Barclays Capital U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The Barclays Capital Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Barclays Capital government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities.*

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