

Monthly Howgozit?

CLIENT UPDATE

December 2, 2011

Successful investors are those who can envision long-term opportunities while pessimists are paralyzed by near-term fears.

After a huge surge in October, November saw renewed fear bringing on extreme volatility. However, a powerful rally in the last few days has sent our markets near to where they started in November. Foreign markets were less resilient. Persistent high unemployment and slow growth, unresolved debt issues, inept politicians, and low investment returns frustrated investors. But as foreigners have become more aware of the issues, they are increasingly intolerant — a positive step toward resolution. In any case, most of these worries have already been priced into our markets.

Economically, there are encouraging signs. Reports improved on the employment and confidence fronts. New hires are accelerating and rising confidence is shown by sales. Productivity remains high and elevated profit margins are more persistent than many analysts expected. Corporate earnings have continued to grow and beat expectations. Bear market conditions for the past decade have brought stock prices to an attractive level.

Despite this, heightened anxiety among investors fueled a “risk on / risk off” environment during November. This has resulted in near-term confusion. Yet we see consistent leadership from the no-load funds (“NLFs”) and exchange-traded funds (“ETFs”) we are holding in our accounts. The NLFs in the core are holding up well because they are focused on high quality companies that pay dividends (large-cap stocks) or those that have demonstrated persistent earnings growth (mid-cap and small-cap stocks). Sector rotation has been extremely high, so we have used mainly non-correlated assets for the few satellite positions we hold.

High volatility creates a difficult environment for investors trying to invest on their own. Therefore, steep declines forced most investors to focus on protecting capital, often selling stocks at the cost of future growth. Sooner or later, many of these investors will turn to a managed program such as ours that aims to preserve capital until the market shapes up and be in the traffic to earn competitive returns when the market uptrend resumes.

Performance: For November, our average model was “flat” (-0.2%) vs. a +1.5% average return for the indexes with which we compete. Year-to-date, our models are still positive (+1.5%) vs. a negative return (-1.1%) for our “bogey” indexes. We think these numbers are noteworthy in view of the volatility we have endured since the market topped out in early May.

Bottom Line: we believe any pullback will be temporary and that the market will likely rise on balance during December and continue to rise in 2012. In addition to an improvement in our technical indicators, this forecast takes into consideration two other historical factors: we’re now into the most favorable seasonal period of the year and next year is the fourth year of the Presidential Election Cycle, usually the strongest year of the cycle. As usual, however, there are no guarantees.

Market volatility may cause opinions or strategy to change without notice. Sources are considered reliable; however, accuracy or completeness is not guaranteed. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio in a given market environment. Indexes are unmanaged groups of securities that are representative of the securities markets in general, or segments thereof. It is not possible to invest directly in an index. All investments have risk and there is no guarantee of future profits. Past performance is not indicative of future results

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