



Timothy C. Hucks, CEP, RIAR & President, Rising Tide, Inc., presents:

QUARTERLY ECONOMIC UPDATE

A review of 4Q 2011

QUOTE OF THE QUARTER

“Never be a cynic, even a gentle one.”

– Vachel Lindsay

QUARTERLY TIP

If you are thinking about selling your home in 2012, accept the possibility that it may sell for much less than what you paid for it. If you want your home to move, order an appraisal or chat with an experienced agent to determine a realistic asking price.

THE QUARTER IN BRIEF

It may have been a frustrating year on Wall Street, but the fourth quarter of 2011 was a real turnaround from the third. The S&P 500 soared 11.15% in 4Q 2011 to dodge a bear market and end the year virtually flat. Key commodities ended the year nowhere near their spring peaks. Inflation and unemployment declined, and housing appeared to offer discernible hints of a rebound. Capitol Hill bickering may have irritated Main Street, but it didn't take the enthusiasm out of the consumer during the holiday season. Europe faced a real possibility of recession as two prime ministers resigned and the European Union risked fracture under the burden of its collective debt crisis. Yet the quarter ended with consumer (and investor) sentiment seemingly improved in America.¹

DOMESTIC ECONOMIC HEALTH

As the quarter unfolded, the news got better. September's jobless rate was 9.1%; November's jobless rate was 8.6%, the lowest level of unemployment since March 2009. By November, annualized inflation was lower at 3.4% after the Consumer Price Index declined 0.1% in October and stayed flat in November.^{2,3}

The Bureau of Economic Analysis said consumer spending rose by (a revised) 0.4% in October and just 0.1% in November. Overall U.S. retail sales also notched monthly gains: the Commerce Department measured a 0.6% rise in October and a 0.2% gain for November, and private industry surveys hinted at strong shopping over the holiday season. On December 15, the National Retail Federation revised its sales growth forecast for November and December upward to 3.8%.^{4,5,6}

The two most-watched consumer confidence indices appeared to make strides toward pre-recession levels (though there was still a long way to go to get to them). The Conference Board's index, just 40.9 in October, climbed to 64.5 in December. The final December University of Michigan consumer sentiment survey rose 5.8 points to 69.9, beating the expectations of economists surveyed by Bloomberg News and pulling above the average reading of 64.2 recorded during the 18-month recession.^{7,8}

The Institute for Supply Management's manufacturing PMI increased in each month of the quarter, ending at 53.9 in December. ISM's service sector index slipped from 52.9 in October to 52.0 in November. Commerce Department data showed overall durable goods orders rising 3.8% in December (thanks to a leap in aircraft orders) after a (revised) flat reading for October.^{9,10,11}

In Congress, the quarter was notable for two developments. The “super committee” of 12 legislators assigned to come up with a deficit reduction plan failed, triggering \$1.2 trillion in involuntary cuts to the federal budget in 2013, including major cuts to defense spending. Later, Republicans and Democrats reached a compromise and passed an extension of the payroll tax holiday, long-term jobless benefits and Medicare payments to physicians at the current level through February 29.^{12,13}

GLOBAL ECONOMIC HEALTH

The quarter passed without Greece defaulting, but new fears about Italy seized the headlines. In October, there was a collective sigh of relief when German chancellor Angela Merkel and French president Nicolas Sarkozy talked EU banks into boosting capital ratios and accepting 50% writedowns on Greek bond holdings. There was also a vow to increase the size of the Eurozone bailout fund. However, Italy (the EU's number three economy) was running a \$2.7 trillion deficit that amounted to 120% of its GDP.¹⁴

By year's end, Italian prime minister Silvio Berlusconi had resigned, and Greece's George Papandreou had also stepped down, the euro had fallen 5.6% against other benchmark currencies in the past six months, and there were new anxieties over capital ratios at major Spanish and Italian banks. EU inflation was down to 2.8% in December, but the key Markit purchasing managers index was below 50, indicating manufacturing sector contraction. Economists speculated that the Eurozone was on the edge of a recession (if not already in one) and worried about the future of the EU and the euro.^{14,15}

Early in the quarter, economists also mulled whether manufacturing was slowing down worldwide. By December, some key PMIs seemed to refute that notion. Purchasing manager indices improved last month in the United Kingdom, China, Australia, India, Switzerland and Singapore, complementing the rise in the U.S. ISM manufacturing index.¹⁶

WORLD MARKETS

Mirroring what happened in America, some global benchmarks had a good quarter to take some of the sting out of a lousy year. Here is the fourth quarter performance of key indices in U.S. dollar terms, as measured by Morningstar: Sensex, -6.07%; CAC 40, +5.96%; DAX, +7.20%; FTSE 100, +8.65%; Hang Seng, +4.99%; Nikkei 225, -2.82%; All Ordinaries, +1.36%; TSX Composite, +2.85%; Shanghai Composite, -6.77%. All these indices ended down for 2011, from mildly down (the FTSE at -5.55%) to way down (the Sensex at 24.64%). The MSCI World and Emerging Markets indices, made an improvement from the previous quarter. The World Index gained 7.11% to finish 2011 at -7.61%; the Emerging Markets rose 4.08% but still finished the year at -20.41%.^{17,18}

COMMODITIES MARKETS

Metals by and large retreated in the quarter. Gold fell 3.4% on the COMEX in 4Q 2011, its first quarterly setback since 4Q 2008. Silver logged its third straight negative quarter, going -7.2%. Platinum lost 7.8%, but palladium gained 6.8%. On the bright side, gold advanced for the eleventh straight year (+10.18% to \$1,565.80 per ounce), though the same could not be said for silver (-9.8%), copper (-22.7%), platinum (-21.0%) or palladium (-18.3%).^{19,20,21}

As for energy and crop futures, oil rose only 8.15% for 2011 after two years of astonishing annual gains. A strong fourth quarter helped: NYMEX crude rose an eye-popping 24.8% in the last three months of the year. Crude prices ended 2011 at \$98.83 a barrel. (Oil gained 121.6% across 2009-2011.) Natural gas limped to the finish line again (-32.2% in 2011) and wheat (-17.8%) and cotton (-36.7%) also suffered big 2011 setbacks. The U.S. Dollar Index finished the quarter with a +2.6% December to go +1.6% for the year.^{20,21}

REAL ESTATE

Were things getting better? Was demand actually rising to meet supply? Was there hope despite the seemingly endless foreclosures?

Maybe. The National Association of Realtors said existing home sales rose 4.0% in November; the sales pace was at its highest since January. The Census Bureau said new home purchases increased by 1.3% in October and another 1.6% in November. Housing starts, down 2.9% in October, soared 9.3% for November. NAR also noted that pending home sales rose 7.3% in November (and they were up 5.9% annually). On the downside, October's S&P/Case-Shiller Home Price Index showed a 3.4% annual existing home price decline across 20 metro markets, but the lower prices were perhaps one factor stimulating homebuying.^{22,23,24,25,26}

Average interest rates on 30-year home loans ended the quarter almost unchanged; average interest rates on other types of mortgages decreased. Freddie Mac's Primary Mortgage Market Survey tracked the following movement in rates from September 29 to December 29: 30-year FRMs, 4.01% to 3.95%; 15-year ARMs, 3.28% to 3.24%; 5-year ARMs, 3.02% to 2.88%; 1-year ARMs, 2.83% to 2.78%.²⁷

LOOKING BACK...LOOKING FORWARD

The Dow and S&P 500 both had their finest quarters since 3Q 2009. Considering how bleak things looked in the EU during the last few months of 2011, these terrific 4Q performances attest to the resilience of the market.¹

% CHANGE	2011	4Q CHG	1-YR CHG	10-YR AVG
DJIA	+5.53	+11.95	+5.53	+2.19
NASDAQ	-1.80	+7.86	-1.80	+3.36
S&P 500	-0.003	+11.15	-0.003	+0.95
REAL YIELD	12/30 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	-0.07%	1.08%	2.41%	3.50%

Sources: cnbc.com, bigcharts.com, treasury.gov, treasurydirect.gov - 12/30/11^{1,28,29,30}
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
These returns do not include dividends.

As we enter 2012, the big question is whether U.S. equities can manage an advance given that it may take several quarters (or even several years) to settle the Eurozone's sovereign debt crisis. Optimists think that even if Europe slips into recession, our economy will be robust enough to avoid another one. Pessimists see potential for another global slowdown, a drawn-out and possibly fractious effort to mop up debt in the EU and tepid growth in key Asia-Pacific economies and various emerging markets. Volatility seems a sure bet, and patience may be a virtue. It promises to be an interesting (and hopefully, a less momentous) first quarter.

***Please feel free to forward this article to family, friends or colleagues.
If you would like us to add them to our distribution list, please reply with their address.
We will contact them first and request their permission to add them to our list.***



Timothy C. Hucks, CEP, is a Certified Estate Planner, a Registered Investment Advisor Representative, and President of Rising Tide, Inc. He may be reached at www.risingtideinc.com, 919.968.8675, or tim@risingtideinc.com.

Securities offered through [Capital Investment Group, Inc.](http://www.capitalinvestmentgroup.com) Corporate Office: 17 Glenwood Avenue, Raleigh, NC 27603 • 919.831.2370. Member [FINRA](http://www.finra.org)/[SIPC](http://www.sipc.com).

This material was prepared by MarketingLibrary.Net Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. MarketingLibrary.Net Inc. is not affiliated with any broker or brokerage firm that may be providing this information to you. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is not a solicitation or recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is not possible to invest directly in an index. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. BSE Sensex or Bombay Stock Exchange Sensitivity Index is a value-weighted index composed of 30 stocks that started January 1, 1986. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The FTSE 100 Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. The Hang Seng Index is a free-float capitalization-weighted index of selection of companies from the Stock Exchange of Hong Kong. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The S&P/ASX All Ordinaries Index represents the 500 largest companies in the Australian equities market. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy.

All economic and performance data is historical and not indicative of future results. Market indices discussed are unmanaged. Investors cannot invest in unmanaged indices. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

Citations.

- 1 - www.cnbc.com/id/45824871 [12/30/11]
- 2 - ncsl.org/?tabid=13307 [12/5/11]
- 3 - www.bls.com/news_release/cpi.nr0.htm [12/14/11]
- 4 - www.bea.gov/newsreleases/national/pi/pinewsrelease.htm [12/23/11]
- 5 - www.nytimes.com/2011/12/14/business/economy/us-retail-sales-edged-higher-in-november.html [12/14/11]
- 6 - www.cbsnews.com/8301-505245_162-57348590/december-consumer-confidence-expected-to-rise/ [12/27/11]
- 7 - articles.latimes.com/2011/dec/27/business/la-fi-consumer-confidence-retail-20111228 [12/27/11]
- 8 - www.businessweek.com/news/2011-12-22/michigan-consumer-sentiment-index-rose-more-than-forecast.html [12/22/11]
- 9 - briefing.com/Investor/Calendars/Economic/Releases/napm.htm [1/3/11]
- 10 - briefing.com/Investor/Calendars/Economic/Releases/napmserv.htm [1/3/11]
- 11 - www.fxstreet.com/fundamental/economic-indicators/us-durable-goods-orders-bounce-back-in-november/2011/12/23/ [12/23/11]
- 12 - www.cnbc.com/id/45391077 [11/21/11]
- 13 - money.cnn.com/2011/12/23/news/economy/payroll_tax_cut_deal/ [12/23/11]
- 14 - www.nytimes.com/2011/10/28/world/europe/europe-in-accord-on-basics-of-plan-to-save-the-euro.html [10/28/11]
- 15 - www.sfgate.com/cgi-bin/article.cgi?f=/g/a/2012/01/04/bloomberg_articlesLXAIMXOUQVI9.DTL [1/4/11]
- 16 - www.bloomberg.com/news/2012-01-03/global-manufacturing-displays-resilience-to-europe-s-debt-crisis-economy.html [1/3/11]
- 17 - news.morningstar.com/index/indexreturn.html [12/30/11]
- 18 - mscibarra.com/products/indices/international_equity_indices/gimi/stdindex/performance.html [12/30/11]
- 19 - www.coinnews.net/2011/12/31/gold-prices-rise-10-2-for-11th-annual-gain-silver-falls-9-8-in-2011/ [12/31/11]
- 20 - blogs.wsj.com/marketbeat/2011/12/30/data-points-energy-metals-538/ [12/30/11]
- 21 - money.msn.com/market-news/post.aspx?post=7a929e98-4d99-44cb-98c9-a0ef1c3151c4 [12/30/11]
- 22 - www.businessweek.com/news/2011-12-23/sales-of-u-s-new-homes-in-november-rise-to-315-000-rate.html [12/23/11]
- 23 - www.census.gov/cgi-bin/briefroom/BriefRm [1/4/11]
- 24 - community.nasdaq.com/News/2012-01/pending-home-sales-jump.aspx?storyid=111813 [1/3/12]
- 25 - latimesblogs.latimes.com/money_co/2011/12/home-prices-fall-in-october-says-case-shiller-report.html [12/27/11]
- 26 - montoyaregistry.com/Financial-Market.aspx?financial-market=common-financial-mistakes-and-how-to-avoid-them&category=29 [1/4/12]
- 27 - freddiemac.com/pmms/ [1/4/12]
- 28 - bigcharts.marketwatch.com/historical/default.asp?symb=DJIA&closeDate=12%2F31%2F01&x=0&y=0 [12/30/11]
- 28 - bigcharts.marketwatch.com/historical/default.asp?symb=COMP&closeDate=12%2F31%2F01&x=0&y=0 [12/30/11]
- 28 - bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=12%2F31%2F01&x=0&y=0 [12/30/11]
- 29 - treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyield [12/30/11]
- 29 - treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyieldAll [12/30/11]
- 30 - www.treasurydirect.gov/instit/annceresult/press/preanre/2001/ofm71101.pdf [7/11/01]