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

2011 ECONOMIC REVIEW

QUOTE OF THE YEAR

"We must free ourselves of the hope that the sea will ever rest. We must learn to sail in high winds."

– Aristotle Onassis

THE YEAR IN BRIEF

Stocks worldwide faced strong headwinds from Europe's debt crisis in 2011; a crisis that threatened governments, banks and the euro. As a result, financial markets here and abroad dealt with alarming volatility all year. In America, political gridlock also had economic impact: sustained disagreements in Congress affected the U.S. credit rating and the effort to reduce federal debt. The Dow rose 5.53% on the year, and it was one of the few consequential indices to post a 2011 gain. Gold and oil had good years, but some other marquee commodities didn't. Treasuries looked especially attractive to large and small investors. In an unsettling year, there were still some positives; notably, some of the key economic indicators in America showed real improvement.[1]

DOMESTIC ECONOMIC HEALTH

America's unemployment rate peaked at 9.2% in 2011. That peak came in June, and by November the jobless rate was down to 8.6%. In November, consumer inflation was running at 3.4%, with so-called core inflation (minus food and energy costs) at 2.2%.[2,3]

As for consumer spending, it increased in ten of the first eleven months of 2011, with the biggest gains registered in July (0.9%) and September (0.7%). Consumer confidence slipped as Main Street lost patience with Capitol Hill, then rebounded: the Conference Board's monthly consumer confidence index went from 72.0 in February to 40.9 in October to 64.5 in December, while the University of Michigan's gauge of consumer sentiment climbed to a final mark of 69.9 for December, its best showing in six months.[4,5,6]

The Institute for Supply Management's manufacturing index ended the year at 53.9. Its service sector index came in at 52.6 in December. According to ISM's indices, the manufacturing and service sectors had been respectively expanding for 29 and 25 months. Also in December, durable goods orders rose 3.7% (the most in four months). Thomson Reuters data showed December same-store retail sales up 3.4% from a year before.[7,8,9,10]

Opinion polls revealed that few Americans thought highly of Congress in 2011. Standard & Poor's also voiced its displeasure, issuing a historic downgrade of the AAA U.S. credit rating during the summer in the wake of a near-deadlock on Capitol Hill over raising the federal debt ceiling. The Congressional "super committee" assigned to plan $1.2 trillion in cuts from the federal budget quit before it could come up with a plan. Congress passed a two-month extension of the payroll tax holiday in December, but only after another loud partisan fight.[11]

GLOBAL ECONOMIC HEALTH

The EU debt crisis that had begun in Greece in late 2009 intensified. 2011 saw the creation of a permanent Eurozone bailout fund, a €78 billion bailout for Portugal, second and third bailouts of €109 billion and €8 billion for Greece, huge jumps in government bond yields in Italy and Spain, a downgrade of Italy's credit rating by Standard & Poor's, a bailout of the Franco-Belgian lender Dexia, and a lively denouncement from U.K. foreign secretary William Hague, who compared the euro to a "burning building with no exits." An October accord was reached: key banks and insurers within the EU agreed to a 50% writedown on Greek bonds, and EU finance ministers unveiled a plan to boost bank capital ratios to 9% or better and quadruple the size of the Eurozone bailout fund. However, Greek prime minister George Papandreou nearly undermined the progress by stating that he would make the latest austerity cuts for that country contingent on a popular vote. By year's end, Papandreou and Italian prime minister Silvio Berlusconi were both out of office and the U.K. and Hungary were objecting to conditions in a proposed intergovernmental pact that would install new budget guidelines among Eurozone nations.[12,13,31,32,33]

IHS Global Insight projected total Asia-Pacific region economic growth of 4.5% in 2011. Per country, the IHS estimates of 2011 GDP are as follows: India, +6.8%; China, +9.2%; Australia, +2.0%; South Korea, +3.6%; Thailand, +1.3%; Indonesia, +6.4%; Japan, -0.7%. (The tragedies that hit northern Japan in March impacted all of the region's economies.) While China's manufacturing engine had cooled from 2010, the nation's retail sales (+17.3%) and fixed asset investment (+21.2%) recorded major annual increases in November; IHS forecasts growth of 7.8% for China, 7.2% for India and 2.9% for Japan in 2012.[14]

WORLD MARKETS

Looking at data from the *Wall Street Journal*, we see that just five benchmarks of consequence advanced in 2011. The Dow was one of them; the others were the Philippine Stock Exchange (+4.1%), Indonesia's JSX Composite (+3.2%), Malaysia's KLCI (+0.8%) and Venezuela's Caracas General (an astonishing +79.1%). Here are some 2011 losses*:* Sensex, 24.6%; CAC 40, 17.0%; DAX, 14.7%; FTSE 100, 5.6%; Nikkei 225, 17.3%; All Ordinaries, 15.2%; Merval, 30.1%; Shanghai Composite, 21.7%; DJ Stoxx 600, 11.3%; Bovespa, 18.1%; RTSI, 21.9%. Incidentally, the world's top three performers over the last three years are the Colombo Stock Exchange of Sri Lanka (+59.9%), the Caracas General (+49.7%) and the JSX Composite (+41.3%). The MSCI World Index lost 7.61% in 2011; its sibling, the MSCI Emerging Markets Index, sank 20.41%.[15,16]

COMMODITIES MARKETS

Gold and oil racked up nice 2011 advances, though the gains were mundane compared those of 2010. Gold rose 10.2% for the year on the COMEX while oil realized an annual gain of 8.2% on the NYMEX; on December 30, oil futures settled at $98.83 while gold futures settled at $1,565.80. Other marquee metals struggled in 2011: copper dived 22.7%, platinum slipped 21.0%, palladium fell 18.3% and silver lost 9.8%. Natural gas had another terrible year (-32.2%), while heating oil (+14.6%) and RBOB gasoline (+8.32%) did better. Wheat (-17.8%) and cotton (-36.7%) fell sharply for 2011, but corn gained 3.8%. The U.S. Dollar Index went +1.56% for the year. Thanks in part to low interest rates and a race to safety by many foreign investors, the overall total return on Treasury notes was 8.6% in 2011.[17,18,19]

REAL ESTATE

Let's look at the numbers that really matter in this sector: the annual change per indicator. The latest existing home sales figures from the National Association of Realtors (November) show sales up 12.2% from a year before. NAR also recorded a 5.9% annual rise in pending home sales as of November. (For the record, NAR admitted an extraordinary data blunder in December: it had overestimated existing home sales by 14.3% across 2008-2010.) Existing home prices, as measured by the most recent S&P/Case-Shiller Home Price Index in October, were 3.4% beneath levels of a year ago.[20,21,22]

While new home sales rose 1.6% in November, they also appeared to be on pace for a seasonally adjusted annual total of 315,000, an all-time low, even below the 323,000 of 2010. On the upside in new construction, November housing starts figures showed a 9.3% monthly increase and a 20.1% leap over last year.[22,23]

With the federal funds rate at a historic low, home loans were as cheap as they had been in several decades. Across 2011, they got even cheaper. Comparing Freddie Mac's December 30, 2010 and December 29, 2011 Primary Mortgage Market Surveys, we see the following reductions in average rates: 30-year FRMs, 4.86% to 3.95%; 15-year FRMs, 4.20% to 3.24%; 5/1-year ARMs, 3.77% to 2.88%; 1-year ARMs, 3.26% to 2.78%.[24,25]

LOOKING BACK...LOOKING FORWARD

Even though its advance last year was unremarkable, the Dow has done very well in the wake of the recession; it rose 39.21% across 2009-2011, hitting a three-year peak in late April. The Dow (+11.95%) and S&P 500 (+11.15%) had their best quarters in 4Q 2011 since 3Q 2009. The Dow's total return for 2011 was +8.38% while the S&P's total return for the year was +2.11%.[26,27]

% CHANGE	2011	2010	5-YR AVG	10-YR AVG
DJIA	+5.53	+11.02	-0.39	+2.19
NASDAQ	-1.80	+16.91	+1.57	+3.36
S&P 500	-0.003	+12.78	-2.27	+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%

Source: cnbc.com, bigcharts.com, ustreas.gov, bls.gov - 12/31/11[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 for 2012, will it be as volatile as last year? The EU debt crisis seems certain to provide us with turbulence for many months, or even years; hopefully, Wall Street will exhibit a degree of detachment, or at least sustained faith in America's ability to ride through global economic stress. Some economists see a recession coming in Europe, but not many see one ahead for us; some analysts worry about the reduced forecasts for the growth of China's economy and its impact on ours. Certainly the upcoming U.S. elections will be momentous; a major shift in federal budget policy could follow. 2012 could be a year in which home prices stabilize and corporations grow yet healthier. The mixed signals sent by the economy may not abate for a while. So this year promises to be very interesting, though hopefully not as filled with extremes as 2011.

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Exchange or Bolsa de Valores de Caracas (BVC) is a stock exchange located in Caracas, Venezuela. 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. 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 MERVAL Index (MERcado de VALores, literally Stock Exchange) is the most important index of the Buenos Aires Stock Exchange. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. The BM& F Bovespa is one of the largest exchanges in the world in terms of market value, the second largest in the Americas, and the leading exchange in Latin America. The RTS Index (RTSI) is an index of 50 Russian stocks that trade on the RTS Stock Exchange in Moscow. The Colombo Stock Exchange (CSE) is the main stock exchange in Sri Lanka. 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.

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