

WEEKLY MARKET COMMENTARY

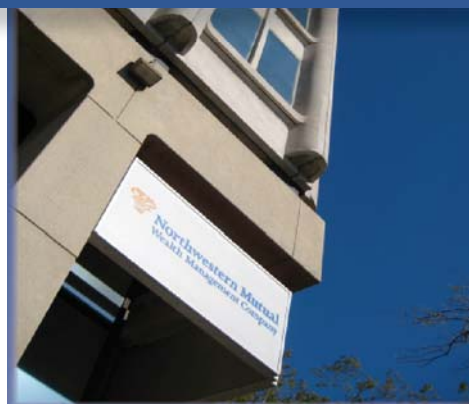
American stock indexes hit six-month highs on the strength of some solid, if not

spectacular, fourth-quarter earnings because of upbeat reports about American jobs and manufacturing, and above all, thanks to the absence of any dire news out of the eurozone in the wake of the credit-rating downgrade to nine nations and the European Financial Stability Facility (EFSF). In fact, Spain, Greece and the EFSF all held relatively successful bond sales last week.

Most of last week's action in Europe revolved around whether or not Greece and its creditors would complete the "voluntary" renegotiation of its debt that's a prerequisite of any further bailout money for that beleaguered country. The discussions got testy, however, with Greece's Prime Minister Lucas Papademos saying he might require creditors who didn't come on board to take a loss, while some of those creditors, including hedge funds, responded by saying they might take Greece to court if they're forced to take that loss. The bottom line is that Greece needs to come up with €14.5 billion (\$18.7 billion) by March 20 to avoid default – and the clock is ticking.

In his first comment on his nation's downgraded credit rating, France's President Nicolas Sarkozy said, "in the final analysis, this doesn't change anything" – he is running for reelection, after all. He also said that eurozone countries should continue to cut deficits, reduce spending and be more competitive. Mario Draghi, the president of the European Central Bank, was less positive about the downgrades, saying, "We are in a very grave state of affairs," and that "only a well-coordinated, coherent and properly-timed strategy will yield the desired results." And Mario Monti, Italy's new prime minister, announced a plan to jumpstart Italy's economy by pumping \$7.1 billion into the nation's infrastructure and reducing the power of guilds to promote competition. His goal is to avoid what he called an "austerity trap" of further economic decline that would result from the cutbacks announced in December. By its own reckoning, Italy's GDP is expected to fall at least 1.5% this year – the International Monetary Fund (IMF) says 2.2%. Monti said that Italy's three "big problems" were "insufficient competition, inadequate infrastructure and too much red tape."

In its latest report, the World Bank lowered its forecast for global growth in 2012 to 2.5%, down from a forecast of 3.6% in June and from a final figure of 2.7% in 2011. The bank also warned of the potential for a continued downturn "similar in magnitude to the Lehman crisis," especially if European countries are shut out of the debt markets. Further, the report noted that GDP growth in China is slowing: it fell to 8.9% in the fourth quarter, the slowest pace since the second quarter of 2009, bringing the rate for all of 2011 down to 9.2% compared to 10.4% in 2010. Growth in developed countries for 2012 was forecast to be 1.4% (down from a forecast of 2.7% in June) and 5.4% in developing countries (from 6.2%). Countries that use the euro were expected to shed 0.3% in GDP this year.



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Key Market Data

week ending...	1/13/12	1/20/12	Change
Dow Jones Industrial Average Index	12,422.06	12,720.48	+2.40%
S&P 500 Index	1,289.09	1,315.38	+2.04%
NASDAQ Composite Index	2,710.67	2,786.70	+2.80%
10-Year Treasury Note Rate	1.853%	2.028%	+0.175 pct. pts.
NYMEX Crude Future (Barrel)	\$101.56	\$98.70	-2.82%
Euro/U.S. Dollar	\$98.70	\$98.46	-0.24%
NYMEX Crude Future (Barrel)	\$1.2677	\$1.2931	+\$0.0254
MSCI EAFE Index	1,415.22	1,472.05	-0.496%

The IMF announced its intention to raise as much as \$500 billion to help it better address the eurozone crisis, though the United States, the fund's largest shareholder, was not on board, sticking to the line that the eurozone countries had enough money to take care of themselves. The IMF said it might need as much as \$1 trillion in 2012 to help all of the world's struggling economies.

In Washington, Congress was back on the job after the holiday recess and, as expected, the partisan battle picked up right where it left off. The GOP was smarting about the president's appointment of Robert Cordray as the chief of the new consumer protection agency and his rejection of the cross-country XL Keystone oil pipeline (though he invited its sponsors to reapply for permission, no doubt hoping that wouldn't happen until after the election). So in an entirely symbolic and anticipated gesture, the House voted to reject the president's request to raise the debt ceiling by another \$1.2 trillion. The move was futile, as Republicans themselves acknowledged, because the deal worked out last August gives the president veto power, which would mean that both chambers would need to come up with a two-thirds majority to override his veto, a virtual impossibility as the Democrats control the Senate. But, as many commentators pointed out, the vote by the House shows that it will be hard to get much done in the coming months, especially as some House Republicans are still smarting over what they see as Speaker John Boehner's caving in on the two-month extension of the Social Security payroll tax cut just before Christmas. The next battles are likely to be over renewing that cut, which was only extended through Feb. 29, and the 2013 budget, due to be released by the White House on Feb. 6.

Meanwhile, Newt Gingrich's victory in South Carolina slowed the expected march of Mitt Romney and, with three different winners in the first three primaries, extended the period during which the GOP nominees will continue to assail one another before turning their full attention to President Obama.

In other news, the Labor Department said that first-time jobless claims dropped 50,000 to 352,000, the lowest total since April 2008. And the Federal Reserve reported that U.S. manufacturing improved 0.9% in November, the largest increase in over a year. Industrial output climbed 0.4% as companies increased production to meet demand, particularly for cars. Over the last year, manufacturing output was up 3.7%.

Speaking of cars, GM overtook Toyota in 2011 to become the world's leading automaker for the first time since 2007, selling 9,025,942 vehicles, an increase of 7.6% from 2010.

The Labor Department also reported that the Producer Price Index fell 0.1% in December because of lower food and energy costs. However, there was a 0.3% increase in the core index, which does not include the volatile food and energy categories, the biggest jump since July. For the year, producer prices were up 4.8% compared to 3.8% in 2010.

The Consumer Price Index was flat in December for the second month in a row. Less the volatile food and energy categories, it rose 0.1%. For all of 2011, prices were up 3% compared to 1.5% in 2009, the biggest increase since 2007. Even so, the rate is forecast to slow this year because of what are expected to be lower prices for oil and other commodities such as corn and wheat.

The National Association of Realtors reported that sales of previously owned homes hit an 11-month high in December, rising 5% to an annual

rate of 4.61 million units. For the year, 4.26 million units were sold, up from 4.19 million in 2010. However, the median price of \$164,500 in December was down 2.5% from a year earlier.

The Commerce Department said that housing starts fell to an annual pace of 657,000 homes in December. For the year, builders started 609,000 homes.

Finally, the average interest rate for 30-year fixed-rate mortgages fell to 3.88% last week, a historic low, according to Freddie Mac. It was also the seventh week in a row that the rate was less than 4%.

A Look Ahead

The Fed will have its first meeting of 2012 on Tuesday and Wednesday, but most analysts believe it will stand pat given the recent leveling off of inflation, and the president will deliver his State of the Union speech on Tuesday night. In addition, there will be more news about fourth-quarter earnings as well as updates on pending and new home sales, durable goods orders, personal consumption, the Conference Board's Leading Indicators and the long-awaited report on fourth-quarter GDP growth, expected to come in at around 3% (compared to 1.8% in the third quarter).



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Please remember that all investments carry some level of risk, including the potential loss of principal invested. Indexes and/or benchmarks are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance and are not indicative of any specific investment. Diversification and strategic asset allocation do not assure profit or protect against loss. Although stocks have historically outperformed bonds, they also have historically been more volatile. Investors should carefully consider their ability to invest during volatile periods in the market. The securities of small capitalization companies are subject to higher volatility than larger, more established companies and may be less liquid. Bond investors should carefully consider risks such as interest rate risk, credit risk, securities lending, repurchase and reverse repurchase transaction risk. Greater risk is inherent in investing primarily in high yield bonds. They are subject to additional risks, such as limited liquidity and increased volatility. There is an inverse relationship between interest rates and bond prices. Investing in foreign securities is subject to certain risks not associated with domestic investing such as currency fluctuations and changes in political and economic conditions.

All index references and performance calculations are based on information provided through Bloomberg. Bloomberg is a provider of real-time and archived financial and market data, pricing, trading, analytics, and news.

The Dow Jones Industrial Average Index® is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Standard and Poor's 500 Index® (S&P 500®) is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Standard & Poor's offers sector indices on the S&P 500 based upon the Global Industry Classification Standard (GICS®). This standard is jointly maintained by Standard & Poor's and MSCI. Each stock is classified into one of 10 sectors, 24 industry groups, 67 industries and 147 sub-industries according to their largest source of revenue. Standard & Poor's and MSCI jointly determine all classifications. The 10 sectors are Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Telecommunication Services and Utilities.

The NASDAQ Composite Index® Stocks traded on the NASDAQ stock market are usually the smaller, more volatile corporations and include many start-up companies.

NASDAQ - National Association of Security Dealers Automated Quotations. The NASDAQ is a computer-operated system owned by the NASD that provides dealers with price quotations for over the counter stocks.

The 10-year Treasury Note Rate is the yield on U.S. Government issued 10-year debt.

NYMEX Crude Future is the futures price on a barrel of oil on the New York Mercantile Exchange.

Euro/U.S. Dollar is the currency exchange rate between the Euro and the U.S. Dollar.

The MSCI EAFE Index measure international equity performance. It comprises the MSCI country indices that represent developed markets outside of North America: Europe, Australasia and the Far East.

Bear market calculations and interpretations are derived from data supplied by Ned Davis Research, Inc.

The European Central Bank (ECB) is the institution of the European Union (EU) which administers the monetary policy of the 17 EU eurozone member states.

The International Monetary Fund (IMF) is the intergovernmental organization that oversees the global financial system by following the macroeconomic policies of its member countries, in particular those with an impact on exchange rate and the balance of payments.

The World Bank is an international financial institution that provides loans to developing countries for capital programs. It is made up of two unique development institutions owned by 187 member countries: the International Bank for Reconstruction and Development (IBRD) aims to reduce poverty in middle-income and creditworthy poorer countries, while the International Development Association (IDA) focuses on the world's poorest countries.

The U.S. Department of Labor Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output.

The U.S. Department of Labor Consumer Price Indexes (CPI) program produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

The National Association of Realtors (NAR) is a real estate trade association involved in all aspects of the residential and commercial real estate industries. NAR also functions as a self-regulatory organization for real estate brokerage.

Freddie Mac is a stockholder-owned corporation chartered by Congress in 1970 to create a continuous flow of funds to mortgage lenders. Freddie purchases single-family and multi-family residential mortgages and mortgage-related securities, which it finances primarily by issuing mortgage pass through securities and debt instruments in the capital markets.

The Conference Board Leading Economic Index is intended to forecast future economic activity and is calculated by The Conference Board, a non-governmental organization, which determines the value of the index from the values of 10 key variables. These variables have historically turned downward before a recession and upward before an expansion.

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