



December 5, 2011

Dear Valued Clients & Friends,

The Wide Swings Continue

Stock markets across the world rocketed higher on the last trading day of November, fueled by a coordinated move to increase liquidity by the world's major central banks. In response to this effort to ease stresses in Europe that threaten the global financial system, the widely watched Dow closed out November with a monster rally of close to 500 points, up 4.2%, with its best daily gain in over 2 ½ years, the Dow ended the week above 12,000.

The robust rally was broad-based and global, with hard-pressed stock markets in Germany and France rising more than 4%. This latest spike up put the blue-chip Dow in positive territory YTD 2011, up 4%, with the broader market S&P 500 off a fraction at -0.8% and the tech-heavy Nasdaq composite down -1.2%. This latest surge was particularly welcome, coming as it did after the poor performance of the week prior to Thanksgiving, when stocks suffered their worst fate for the same holiday period going back to 1972.

This upward trend doesn't suggest we are out of the woods—not by a long shot. Plenty of ominous black clouds still hang over the financial markets and prospects for a strengthening economy. It might help to recall stocks had a wrenching two-month slide back in August and September, barely escaping registering a bear market, with a drop of almost 20% below its April 29th high.

The reasons for the selling pressure in the late summer are still with us. Europe's debt crisis has been at the root of the problem, and nobody believes it has been solved. On top of this, domestic economic growth is too weak and unemployment remains too high. Political dysfunction continues in Washington. We face a monumental debt load, and crushing deficits have not been addressed.

Despite these headwinds, stocks rebounded in October, up 10.8%. So, it is a relief after a rocky November to be able to view account statements at month end that for the most part have held steady.

With the uncertainty surrounding the markets, it is reasonable to expect continued high levels of volatility. Yet, it would be unwise to abandon stocks now, no matter how tempting. Equities are more likely to move upward, perhaps in a sudden burst, than plunge in a freefall, or stagnate. While we believe this to be the case, in this environment a surprise on the downside should not be ruled out. The risk inherent in stock ownership was amply demonstrated in the six month bear market that ran from September 2008 thru February 2009. Yet, equities historically have offered superior long term double-digit average return potential. However, we want to be careful not to set expectations too high, especially in the near term. Then again, with yields on money market cash being nonexistent and Treasuries and CD rates paltry, there are no attractive safe alternatives to be found.

If one looks hard enough, there are signs pointing to better days ahead in the financial markets. Nationwide, retailers have shown surprising strength to start off the holiday shopping season. Consumer confidence has

edged up, as evidenced by revved up auto sales. Manufacturing continues to be a bright spot in economic activity. Despite a continued housing slump, there are glimmers of hope that perhaps the bottom has been reached. Corporate balance sheets are healthy and awash in cash. Profits continue to beat expectations. By historical standards, measures such as price to earnings ratios represent good value. Many analysts contend that owing to the problems in Europe, the stock market is selling at a significant discount. If this crisis can somehow be contained, the market conceivably could take off.

Rampant pessimism and negative sentiment translates into billions of dollars parked on the sidelines in almost zero-yielding interest. In fact, 3 month treasuries are currently carrying a slight negative yield. That cash could well flood the market should stocks start moving up. By their actions, too many fickle investors seem to prefer buying high, not low. There is a definite risk of missing out on the next upward leg when it comes. Also, there is the potential for some holiday cheer should we have a year-end Santa Claus rally. December is typically the best month for stocks. Since 1990, the market has seen gains 81% of the time. Whatever happens, we don't have long to wait whether we'll see Santa or Scrooge.

No one should try predicting the future, especially the near-term direction of the stock market. But stock investors who have been on this bumpy ride are advised to continue to hang on.

All of us at your Anxiety Removal Team® wish you and yours good health and happiness this holiday season. Please contact us with any questions or concerns.

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