

**AND THAT'S THE WEEK THAT WAS...****For the Week Ended January 6, 2012***Market Matters...*

Market/Index	Year Close (2011)	Qtr Close (12/31/11)	Previous Week (12/30/11)	Current Week (01/06/12)	YTD Change
Dow Jones Industrial	12,217.56	12,217.56	12,217.56	<b>12,359.92</b>	<b>1.17%</b>
NASDAQ	2,605.15	2,605.15	2,605.15	<b>2,674.22</b>	<b>2.65%</b>
S&P 500	1,257.60	1,257.60	1,257.60	<b>1,277.81</b>	<b>1.61%</b>
Russell 2000	740.92	740.92	740.92	<b>749.71</b>	<b>1.19%</b>
Global Dow	1,801.60	1,801.60	1,801.60	<b>1,812.76</b>	<b>0.62%</b>
Fed Funds	0.25%	0.25%	0.25%	<b>0.25%</b>	<b>0 bps</b>
10 yr Treasury (Yield)	1.87%	1.87%	1.87%	<b>1.96%</b>	<b>9 bps</b>

Brand new year...Same old stories. As the calendar flipped over to 2012, investors have yet to put the old concerns in the rearview mirror. As has become a daily occurrence, each development in Europe (no matter how insignificant) becomes front page news. Each politico's comment is over-analyzed; each economic release is dissected; each central bank move is scrutinized (heck, sounds a bit like developments in the US). With Italy's borrowing costs spiraling above 7%; Hungary stepping forward as the latest "victim," and the ECB being forced to take action, investors can't seem to take their eyes off of the train wreck. Closer to home, the analysis of holiday sales continued to dominate the financial press (both real pundits and no-name bloggers). Despite the initial news that the season was far better for retailers than most had predicted, some new worries emerged as the weak (though strengthening) labor market weighed on consumer activity during the prior two months. On the political front, Rick Santorum became the latest Republican-flavor-of-the-day as a surprising surge in Iowa brings promise of momentum heading into the primary season. (How did that "mo" work out for Bachmann, Perry, and Cain?)

Retailers posted same-store sales figures for December and the results were mixed at best. **Thomson Reuters** reported a 3.4% average gain for the 22 participating retailers, below the 4.3% increase from December 2010. Some analysts credited "unseasonably warm weather" as a major culprit, through **Target**, **JC Penney**, and **Kohl's** cited the impact of mass discounting and higher apparel costs as reasons for the lackluster results. **Macy's**, on the other hand, reported solid sales and the company even raised its earnings outlook (and its dividend). Likewise, luxury retailers performed well during the season as **Saks** and **Nordstrom** posted nice sales increases. Shifting to automakers, consumers must have taken advantage of late-year discounting as **Chrysler** (+37%), **Ford** (+10%), and **GM** (+5%) each ended the year on a strong note.

In other corporate news, **3M** is buying **Avery Dennison's** office biz; **Eastman Kodak** looks headed for Chapter 11 bankruptcy protection; **Verizon** is benefiting from its **Apple** affiliation as the company posted record iPhone quarterly sales; and **Starbucks** is raising prices in certain regions to counter the impact of raising commodity costs. (Nothing like a \$5 decaf latte.)

Oil prices jumped early as worries about a nuclear Iran (and additional sanctions) heated up, though the weekly inventory releases raised new questions about current demand for energy. Prices settled a tad above \$101/barrel to end the week. Stocks soared out of the gate on better-than-expected economic data as many investors/traders returned to their desks for the first time in weeks. The Dow Jones skyrocketed 179 points on the first day of 2012, its third best gain to start a new year. Still, some concerns out of Europe (so what else is new?) were rekindled as the week progressed, but the overall investor sentiment remains positive for now. A strong initial week of trading traditionally translates into a favorable year for the markets (though nothing about investing seems too "traditional" these days). Happy New Year!!!

## Economic Calendar

Date	Release	Comments
January 3	ISM (Manu) (12/11)	Continued in expansion mode for over 2 years
	Construction Spending (11/11)	Better-than-expected increase
	Fed Policy Meeting Minutes	Ongoing labor concerns with government layoffs
January 4	Factory Orders (11/11)	Best showing in 3 months
January 5	Jobless Claims (12/31/11)	4-week average at lowest level since June 7, 2008
	ISM (Services) (12/11)	Slight advance in index
January 6	Unemployment Rate (12/11)	Lowest level since February 2009
	Nonfarm Payroll (12/11)	Private companies added 212,000 jobs
<b>The Week Ahead</b>		
January 9	Consumer Credit (11/11)	
January 11	Fed Beige Book	
January 12	Jobless Claims (01/07/12)	
	Retail Sales (12/11)	
January 13	Balance of Trade (11/11)	

The new year started off much the same way as the old one ended for Europe. France's borrowing costs rose on fears that **S&P** may yank its AAA any time now. (Heck, the US's borrowing costs actually plunged on its treasury's rating cut a few months back.) Germany reported a second straight month of falling retail sales (so much for the holiday season in Berlin). Hungary took steps to shore up some needed funding from the International Monetary Fund. The European Central Bank bought debt of both Spain and Italy as their respective rates continued to hover around unsustainable levels. All in a week's work for Europe.

The news was actually far more favorable on the domestic front. The ISM reported another month of solid manufacturing sector expansion and November factory orders posted its first increase in three months. Construction spending jumped again as the housing sector continues its long road to recovery. Initial jobless claims for unemployment benefits fell last week and has now remained under the crucial 400k level for eight out of the past nine weeks. In fact, the less volatile four-week moving average of claims fell to its lowest level since early June 2008. Continuing with solid labor news, the unemployment rate fell to 8.5% in December, its lowest level since February 2009, and 200,000 new nonfarm jobs (212k within the private sector) were added to the economy. For all of 2011, 1.6 million new jobs were created, certainly a huge talking point in the political election season (though candidate Santorum and others will definitely attempt to spin the results in a very negative manner).

The Fed will be providing greater transparency in its interest rate forecasts in effort to improve its communications with investors and the business public. Most Wall Street firms expect interest rates to remain at the 0% level at least into 2014 and some expect additional Fed stimulus will be needed at some point in the near future. **Morgan Stanley**, for example, expects a new round of asset purchases (QE3? Or would it be QE4?) as the domestic growth rate slows in the new year.

**On the Horizon...**After a "meaningless" breakeven year, the S&P 500 looks to better its performance in 2012. A recent **CNNMoney** survey speculates the benchmark index will gain 7% in the current year. While the economic data has been positive as of late, all eyes shift to corporate earnings and **Alcoa** kicks off the season in the coming days (followed by **JP Morgan-Chase** later in the week). Retail sales highlight the economic calendar and investors get a better feel for the true results of the holidays. While sales looked strong throughout, mass discounting undoubtedly cut into profits and some retailers are now rethinking the success of the markdown strategy. The Beige Book gives an update about the data that policymakers deem most important and investors expect the "new and improved" communications strategy to give them a heads-up on future moves (is that considered insider information?). As for Europe...beware (as always)!!!

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