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AND THAT'S THE WEEK THAT WAS... For the Year/Quarter Ended December 31, 2011

Market Matters...

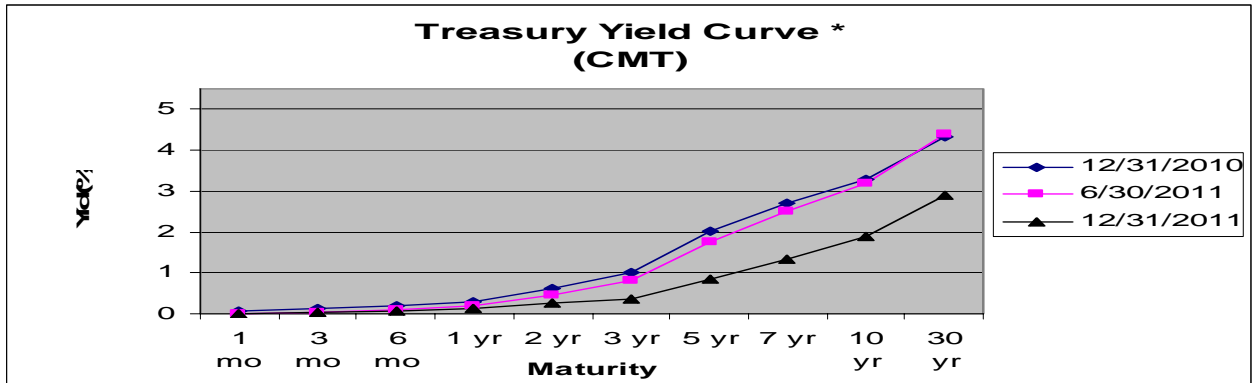
Market/Index	2010 Close	2011 Close	1 st Qtr Return	2 nd Qtr Return	3 rd Qtr Return	4 th Qtr Return	2011 Return
Dow Jones Industrial	11,577.51	12,217.56	6.41%	0.77%	-12.09%	11.95%	5.53%
NASDAQ	2,652.87	2,605.15	4.83%	-0.27%	-12.91%	7.86%	-1.80%
S&P 500	1,257.64	1,257.60	5.42%	-0.39%	-14.33%	11.15%	0.00%
Russell 2000	783.65	740.92	7.64%	-1.91%	-22.15%	15.02%	-5.45%
Global Dow	2,087.44	1,801.60	4.74%	-2.38%	-19.15%	4.40%	-13.69%
Fed Funds	0.25%	0.25%	0 bps	0 bps	0 bps	0 bps	0 bps
10 yr Treasury (Yld)	3.31%	1.87%	14 bps	-29 bps	-124 bps	-5 bps	-144 bps

What a difference a quarter makes. When a disastrous (for stocks) third quarter 2011 came to a close, investors were obsessed with...Europe's ongoing budgetary "challenges" (namely Greece), the Treasury's diminished credit rating, an inability of politicians to compromise, turmoil in the Middle East (Libya), aftermath of Japan's earthquake and impact on global manufacturing, weak labor and the holiday season. The equity indexes each tumbled double-digits amid these ongoing concerns. Fast forward to the end of 2011, what exactly are investors obsessing about today? Europe's ongoing budgetary "challenges" (namely Italy and Spain), the Treasury's diminished credit rating, an inability of politicians to compromise (et tu, Super Committee?), turmoil in the Middle East (Iran), aftermath of Thailand's floods and impact on global manufacturing, weak (but improving) labor and the holiday season. Despite the similar worries, the markets moved to higher levels and made one final push to break-even for the year. The more things change...

Following the US debt ratings cut by **S&P**, Americans were hoping that their elected officials would step up to the plate, act like grown-ups, and set a favorable budget course for the future (LOL). Even the so-called best-and-brightest who comprised a (not-so) Super Committee failed to come to any agreement, though this time, the public offered a collective yawn (as they look to vote many fearless leaders out of office come November). On the corporate front, earnings remained solid with key economic bellwethers like **Caterpillar** and **UPS** posting nice results. Energy leaders (**Exxon-Mobil**) benefited from stronger margins; retailers (**Macy's**, **Kohl's**) brought some optimism to the holiday season; even housing (**Toll Brothers**) showed signs of a sector rebound. On the downside, mighty **Goldman** struggled from lack of underwriting fees; **Amazon** was hurt by shrinking margins; and **IBM** suffered from lackluster biz investment. The world said goodbye to innovator Steve Jobs (**Apple's** founder) and four million iPhone 4S smartphones were sold in the initial weekend of launching. In the transaction world, M&A activity came to a virtual standstill in the fourth quarter (put a fork in that \$39 billion **AT&T/T-Mobile** deal) and even some much hyped IPOs (**Groupon**, **Zynga**) fizzled after their debuts. Consumers chose to take advantage of the mass holiday discounting as "brick and mortar" and online sales surged throughout the season (but at what cost?). BTW, does everyone now own a Kindle?

While stocks returned to favor in the quarter, the late rally was not enough to carry most indexes into positive territory for 2011. The blue chip Dow led the charge for the year (proving that bigger was better/safer for now), while the S&P 500 got ever-so-close to breakeven. Europe struggled in 2011 (Germany -15%, France -17%) and emerging Asian markets tumbled on threats of diminished trade with their developed partners (Shanghai -21%, India Sensex -24%). Despite the credit downgrade, treasuries remained in demand as "cautious" investors rode the government bond wave to higher levels with 30%-ish returns that bested broader bond benchmarks (and, of course, stocks). Still, optimism about the domestic economy and corporate landscape reigned as the year came to an end. (Then again, the politicians have been on vacation.) Happy New Year!

Economically Speaking...



Oh, what a never-ending roller coaster ride. One day, a European summit offers tremendous promise that the debt crisis is nearing an end. The next day, Germany and France can't agree on much; Italian and Spanish bond yields skyrocket to unsustainable levels; and new leaders assume the helms in Greece and Italy (and at the European Central Bank). With the ratings agencies adding to the debacle with downgrades and threats of downgrades (on even the "strongest" economies), the would-be expansive bailout fund still has done little to sway the negative sentiment. China does not seem likely to step up and invest in a big way in any of the struggling countries. The ECB has lowered its benchmark rate (why did it ever raise it in the first place?) and occasionally bought some debt, but the overall moves seemingly have served as mere Band-Aids. For now, the sentiment remains...one step forward, two steps back. Even once mighty China suffered a setback as its manufacturing sector plunged to levels not seen since March 2009 and its trade picture worsened along with the economies of its developed nation partners. The government even lowered its bank reserve requirements after six prior raises earlier in the year.

Closer to home, the domestic economy took strides forward during the past three months and the *retail* enthusiasm of the holiday season bodes well for 2012. Consumer confidence even rose to its highest level since April 2011. **Manufacturing** appeared to be on the (post-Japan earthquake) mend as the ISM index depicted continued expansion, though flooding in Thailand raised new concerns. **Housing** starts and home sales rebounded late, though any real sector recovery will be slow in coming. Still, some institutional investors (hedge funds) are making new plays into the housing markets. **Labor** showed signs of improvements as the unemployment rate fell to 8.6% in November and jobless claims dropped below the crucial 400k level for four consecutive weeks to end the year. **Inflation** remained off the radar for now, though investors cannot disregard future pressures with oil topping \$100/barrel amid new supply/demand worries (thanks Iran). The Fed reported enhanced activities across the regions, though the policymakers described such growth as "slow to moderate." With rates expected to remain at or near zero percent throughout 2012, Bernanke and friends are focusing on an improved communications strategy to keep investors informed about future decisions and the thought-processes behind them.

On the Horizon...It's a small world after all...and global geopolitical events continue to impact all investments markets. Just when Europe seemed to be taking positive steps to move passed crisis mode, along come Spain, Italy, and Hungary to remind investors that the road to recovery will be paved with many bumps along the way. A nuclear Iran presents huge concerns and additional sanctions could cause new crude supply challenges that may prompt the dreaded "I" word (inflation) to resurface. The recent favorable labor releases woke the consumer from hibernation in time for the holidays, but will the enthusiasm last once the season ends? And, in an election year, will investors overlook the ongoing political bickering or will rating agencies get spooked about the inability to compromise on taxes and the deficit? Never a dull moment.

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