



January 5, 2012

Dear Investment Client:

Happy New Year! The enclosed information contains the December 31, 2011 reports and information for your tax preparation, if required. If you have any questions or need additional information, please contact our office at your convenience.

The S&P 500 Index, the proxy for the broader equity market, was flat for the year while the Dow Jones Industrial Average provided a gain of 5.53% for 2011. The NASDAQ Composite Index closed the year down 1.8%. The Barclays Capital Aggregate Index, which measures bond market performance, ended the year with a 2.24% yield and a total return of 8.21%. Global uncertainty provided the backdrop for lower markets around the globe. The D.D. Global ex. U.S. Index was down 16.3% for 2011 and the MSCI-EAFE Index was 11.73% lower.

For the years 2009 and 2010 the equity markets provided strong performance, however, equity markets struggled to maintain the momentum in 2011. Volatility increased as the year progressed and was created by the two usual culprits: uncertainty and fear. The markets were forced to deal with many concerns, but the following six items created the most concern:

- The budgetary showdown in Washington that caused S&P to lower its credit rating on U.S. Treasury debt. This showdown exposed the deep ideological divides that exist within the Congress.
- Escalating concerns about European sovereign debt, the health of the European financial sector and the stability of the European Union.
- The global economic fallout from the tragic events in Japan. Japan remains the 3rd ranked country in the world in terms of global GDP contribution.
- Increased political tension in the Middle East, specifically Egypt. Egypt controls the Suez Canal which is a key shipping lane for oil exports.
- Continued high unemployment in the U.S. The unemployment rate has been above 8% for the past three years.
- Weakness in the U.S. housing market. Recent data suggest that the economic drag from the housing crisis continues.

The two most pressing issues, in our opinion, are the domestic fiscal situation and the sovereign debt crisis in Europe. Both of these issues will require lengthy and coordinated government responses and significant compromise. We do not believe that either issue will be resolved quickly.

Domestic markets have improving fundamentals and this may lead to better market performance in 2012. U.S. factories are slowly recovering and our manufacturing sector continues to expand compared to the shrinkage in Europe and China over the past few months. Corporate balance sheets continue to be very strong. Earnings are expected to grow at about 10% in 2012. Household debt has fallen for the past 13 consecutive quarters. The Federal Reserve has indicated that they want to keep interest rates low for an extended period of time. The debt and interest rate outlook should be the basis for improved consumer spending. All of this should allow the economy to continue its slow rate of growth, and we expect the markets to follow. But with all the world's uncertainties, volatility will continue to be high.

All investors should revisit and assess their risk tolerance and investment time horizon each year. Please contact our office to schedule a time to review your account to make sure the allocation is in line with your goals.

Wishing you and your family a Happy New Year.

Sincerely,

Patrick J. Burley
President / CEO