

Market Update

December 2011 Review

"Ho Hum"

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December is quite a festive month, filled with the joy of the holiday season and the excitement of New Years Eve. However the stock markets, although positive for the month, were anything but exciting and one could argue that they were somewhat boring and subdued. If one phrase could describe the month, "Ho Hum" would certainly fit. The Dow Jones Industrial Average ("DJIA") added 1.6% while the S&P 500 Index tacked on 1.0%. The tech-heavy NASDAQ composite was down 0.6% for the month.

The year as a whole played out in similar "Ho Hum" fashion, with plenty of excitement but relatively subdued returns. When you consider the political grappling with regard to the debt ceiling, the European debt crisis, the Japanese earthquake and subsequent tsunami, and uprisings in the Middle East and North Africa region, it comes as no surprise that there was quite a bit of volatility in the stock markets in 2011. As a result of the volatility, one would have expected markets to be up big or down substantially. However, aside from the DJIA, which was up a respectable yet unexciting 8.4% for the year, the S&P 500 Index was up a meager 2.1%. Interestingly, the S&P's positive return can be fully attributed to dividends, as the index began and ended the year at the same level, i.e., 1,258. Finally, the NASDAQ composite was down 1.8% for 2011.

On the international front, investment market returns were down a bit in December but were down significantly for the year. The MSCI EAFE Index lost just under 1% for the month but plummeted 11.7% for the year. Emerging markets were worse on both fronts, down 1.2% for the month and down 18.2% for the year.

On the bright side, fixed income markets performed quite well for both the month and for the year, with the Barclays Aggregate Bond Index adding 1.1% for December and 7.8% for 2011. With volatility high and investors flocking to less risky assets for a good part of the year, it is no surprise that the Barclays U.S. High Yield Index was up only 5% for 2011.

	December	YTD
DJIA	1.58%	8.38%
S&P 500	1.02%	2.11%
NASDAQ	-0.58%	-1.80%
MSCI EAFE	-0.94%	-11.73%
MSCI Emerging Markets	-1.20%	-18.17%
Barclays Aggregate	1.10%	7.84%
Barclays Corp High Yield	2.66%	4.98%

With 2011 comfortably in the rear view mirror, investors are eagerly looking ahead to 2012 and are likely wondering what issues will shape the markets in 2012.

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The European debt crisis is still at the forefront of the global economic stage and a resolution to the crisis doesn't appear any closer than it did last year at this time. Moreover, some even believe the European Union could be disbanded at some point in the near future, which would open up a whole new can of worms.

Aside from Syria, the turmoil in the Middle East/North Africa region that was rampant in 2011 seems to have subsided for the most part, however tensions with Iran have started to escalate. The U.S. and other Western countries have placed economic sanctions on Iran for its nuclear weapons program. In retaliation, Iran has threatened to close the Strait of Hormuz, which would cut off a fifth of the world's oil supply. This action would likely drive oil prices higher and hamper the global economy.

North Korea is another delicate issue to keep an eye on with the passing of long-time leader Kim Jong-il, and the ascension to power of his youngest son Kim Jong-un. Not much is known about the 28-year old leader and there is much uncertainty with regard to him leading a country with an advanced nuclear weapons program. As has been mentioned in the past, uncertainty typically breeds volatility in the markets.

Finally, economic news at home will undoubtedly shape the markets in 2012 and will provide a clearer picture of what to expect in the coming years. The U.S. housing market is still far from stable but we have seen signs of improvement in the job market. Initial unemployment claims have been trending down, meaning layoffs are not as prevalent as they had been in the beginning of 2011. Moreover, job creation has trended up, though the numbers are still far from strong and a significant amount of jobs have been in low-paying sectors like retail and hospitality.

All in all, quite a bit happened on the global economic stage last year but in the end, little happened with regard to stock market returns. This coming year will likely face many of the same challenges along with some new challenges indicated above. Add in the fact that presidential election years are typically tough years for stocks and 2012 could mean rough sledding for investors. However, with the job market seemingly on firmer ground and growth prospects looking brighter, it is quite possible that 2012 could buck the trend.

Definitions & Disclosures:

An index is a measure of value changes in a representative grouping of stocks, bonds, or other securities. Indexes are used primarily for comparative performance measurement and as a gauge of movements in financial markets. You can not invest directly in an index and, for comparative purposes; they do not reflect the effect of the various fees inherent in actual investment vehicles.

The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.

Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services, and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to measure growth of the U.S. economy.

The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.

The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.

The Barclays Capital U.S. Corporate High Yield Index covers the U.S. Dollar denominated, non-investment grade, fixed income, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's Fitch, and S&P is Ba1/BB+/BB+ or below.

The MSCI Emerging Markets Index (EM) is a free-float-adjusted market-capitalization index developed by Morgan Stanley Capital International. It is designed to measure the equity market performance of 26 emerging market countries.

The CBOE Volatility Index® (VIX®) is a measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.