CITRINCOOPERMAN
WEALTH MANAGEMENT, LP
Registered Investment Advisors

A Review of 2011:

Last year, the equity market, as measured by the S&P 500, finished in the black for the third consecutive year; but with more volatility than any in recent memory. In April, the S&P 500 was up more than 10% year to date. Five months later at the end of September, it was down more than 8%. By year end, the S&P 500 was up 2%, largely attributable to dividends. These are fluctuations that investors are getting all too familiar with, and that may be a part of the markets for the foreseeable future. The equity markets remained resilient despite a number of negative factors, including a horrific earthquake and tsunami in Japan, U.S. unemployment reaching and staying above 9% for most of the year, the U.S. having its first ever downgrade in credit, Greece receiving a bail out, and the ongoing Euro-zone crisis.

2011 reminded investors that credit bubbles have long-lasting effects, and some investors have lost confidence in the equity markets. Market participants are having a difficult time committing capital in an environment in which asset prices are not being driven by fundamentals or economics, but rather by global politics. Neither the U.S. nor Europe has been able to instill much, if any, confidence that something will get done to strengthen these anemic economies and combat current paralysis. Despite this, the U.S. is still perceived as a source of stability and has proven to be extremely resilient the last few years. Europe has significant problems primarily due to the state of the PIIGS (Portugal, Italy, Ireland, Greece, Spain). Avoiding anything more than a mild recession, which seems all but assured, could be considered a victory. For 2012, on both sides of the Atlantic, continued geo-political uncertainty, which creates volatility, will likely present plenty of opportunity for savvy long-term investors.

What to Expect in 2012:

Investors should prepare for continued volatility and unpredictability. We are focused on four key themes as we enter 2012:

1) **Interest rates:** U.S. policy makers have maintained a zero-interest rate policy hoping to spur lending and encourage spending. Many market pundits called for rates to head higher in 2011, but instead rates fell, resulting in U.S. Treasury Bonds having a stellar year. The 10 Year U.S. Treasury Bond is currently yielding roughly 2%, down from 3.5% a year ago and a historical average of about 6.7%. At some point, rates will increase, which will negatively impact the broader bond markets. Is 2012 the year that this occurs, or will rates head even lower as investors seek a safe heaven and/or policy makers artificially keep rates depressed?
2) **Europe:** There is a light at the end of the tunnel for the 17-member Euro-zone, but with $200 billion in debt maturing in the first quarter alone, the overseas dynamic could get worse before it gets better. There are two components of the European credit crisis: - debt levels and economic growth prospects. Most of the conversations have revolved around the debt levels. Growth prospects and viability of the currency will likely get a much closer look this year. The "PIIGS," mentioned earlier, are causing much of the concern. The smaller countries' (i.e. Portugal, Ireland and Greece) woes have already been well documented, but more concerning is Italy and Spain. France is also worrisome. One reason is that these countries have a vast amount of sovereign and bank debt that is due to mature and needs to be rolled over because of existing budget deficits. If they are unable to roll the debt, current liquidity concerns could quickly turn in-to solvency concerns. The beginning of the year should give a good indication of how the bond auctions (rolling over of debt) are received.

3) **Elections:** 2012 brings an election year for the United States. If you thought the partisan bickering was tough to handle last year, brace yourself as the election gets closer. On the bright side, out of twenty-one presidential election years since 1926, investors have lost money in only four. The U.S. election won't be the only source of political activity. Seven G-20 nations will be holding elections in 2012, including France, Italy and Mexico.

4) **U.S. Economy:** In the United States, most market strategists estimate economic growth of 1.75% - 2.50% in 2012, an improvement over 2011 and in line with average growth rates of the last decade. The economy and job market gained some momentum heading in-to 2012, the unemployment rate was finally able to get below 9% (the latest reading was 8.5%). Consumer confidence has been climbing since the summer, and automakers reported having their best two months of sales in November and December. There has also been a slow gain in durable goods orders and an increase in the PMI (Purchasing Managers Index) in the fourth quarter of 2011. That may be a sign of a turn in the economy. Housing, unfortunately, continues to have its problems. Home prices have fallen from peak prices in 2006 in the majority of regions and have wiped out trillions of dollars in equity from the American consumer. Continued weakness in the housing market poses a significant barrier to a more vigorous economic recovery. After all the data points are figured in, we conclude that the United States will experience anemic growth, but growth nonetheless.

One thing is for sure - politics and the markets are more intertwined than ever. Uncertainty and volatility should afford opportunities to deploy cash, in the event of market dips. Overall, we are moderately optimistic for 2012, and will keep a vigilant eye for recommending tactical positions, without losing sight of our clients' long-term investment plan.