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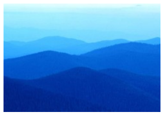
Market Update



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Financial and Investment Planning

"Facts are stubborn things; and whatever may be our wishes, our inclinations, or the dictates of our passion, they cannot alter the state of facts and evidence."

John Adams
U. S. Diplomat & Politician
December, 1770

We could use a few more politicians and economic commentators like John Adams these days. As strongly as our main stream media and political pundits want everyone to believe that the U.S. economy is slipping back into recession, the facts up to this point are telling a different story. And because I do believe facts are important, as well as stubborn, I'm going to list a few recent statistics which indicate that, while our economy is certainly not booming (I think we all know that), it is showing signs of life and does not appear to be heading toward a recession. The following numbers were released last week and are compliments of our friends at First Trust and Deutsche Bank:

- Industrial Production rose for the fifth consecutive month and was led higher by automobiles. Every one of the big three exceeded sales expectations.
- 74% of all S&P 500 companies have reported third quarter earnings that exceeded expectations.
- Plant capacity utilization increased (to 77.4%) which marks a three year high.

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Inside this issue:

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- The Empire State Manufacturing index rose for the fifth straight month while the Philly Fed Index rose and entered expansion territory for the first time in three months.
- The WAHB Housing Market Index rose for the first time in four months and hit a 17 month high. This was led by the largest gain in prospective single family sales since April 2009.
- The Fed's Beige Book noted reports from the 12 Federal Reserve Districts showing, "overall economic activity continued to expand".
- The Index of Leading Economic Indicators rose for the 14th time in 15 months.
- Real GDP has expanded for nine consecutive quarters, at an average rate of 2.5%. No one is satisfied with this rate of growth; but it is a recovery and not a recession.
- Despite very weak confidence numbers, consumer spending is up 2.2% at an annual rate. In what I consider a real shocker, real furniture and household durable equipment spending (refrigerators, washing machines, etc.) increased by 5% in the past year and now stands just 0.3% below its all-time high in 2007.

"As strongly as our main stream media and political pundits want everyone to believe that the U.S. economy is slipping back into recession, the facts up to this point are telling a different story".

Even for those not familiar with some of these indexes and indicators, it is apparent that the recent trend is positive. Of course, these numbers can change quickly and there is always the risk of a detrimental geopolitical event which could derail the recovery. One such event would be a default by Greece on its sovereign debt. The Greek saga has been the dominant story over recent weeks and there are meetings underway to address this issue as I write this today.

The problem isn't so much the fear of an economic collapse in Greece – the Greek economy generates a total GDP that is less than the annual revenue of Wal-Mart (Source: Hoover.com).

Financial and Investment Planning *continued*

The problem has much more to do with the uncertainty of how much money Greece has borrowed from other countries and if a Greek default might spread to other parts of Europe.

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There is a very wide divergence of opinions on the ramifications of a default by Greece, but it would certainly not be the first time the country was unable to pay its own debt. Greece has defaulted several times in its history and in fact the country has been in default over 50% of the time since becoming independent. (Source: NBER Working Papers Series).

I've heard Greece is a beautiful country and I'm sure it is filled with wonderful people, but at this point I think we have to ask the question of who would lend money to anyone (person, business, or country) who is in default over 50% of the time?

If there is anything positive coming from the debate in Europe over how to handle the issues facing Greece, it has been the willingness of the leaders to sit down together and act with a unity of purpose. These events are unfolding on a daily basis and I'm sure I will be addressing this again in our next newsletter and certainly during our annual **Economic Update meeting Wednesday, January 25, 2012 . (Please save the date.)**

Market Update

Stocks had their best month of the year and bonds held steady as recession fears eased in October.

Major Stock Indexes SOURCE: THE WALL STREET JOURNAL		(As of 10/31/11)*
S&P 500 Index	-	0.3%
Dow Jones Industrials	+	3.3%
NASDAQ Composite	+	1.2%
Dow Jones World Index (ex U.S.)	-	10.4%
Russell 2000 (Small Cap Index)	-	5.4%
S & P Mid-Cap 400	-	2.1%
Major Bond Indexes		
US Treasury –Long Term	+	16.1%
U.S. Treasury – Intermediate	+	3.3%
Barclays/U.S. Aggregate	+	6.7%
U.S. Corporate—Barclays	+	8.0 %

- Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

Office and Personal

This past month I finally completed my own succession plan by signing an agreement with Tim Wyman of the Center for Financial Planning located in Southfield. I certainly don't plan on going anywhere anytime soon, but I feel it is important for our clients to know that they would be well taken care of should I make a sudden "departure".

I have known Tim for the past couple of years and we have spent time talking at various Raymond James corporate meetings. I have been impressed by Tim's personal commitment to serving his clients and his investment philosophy is consistent with my own. Tim is also an independent Raymond James Financial Services advisor, but he is part of a much larger office and operation with several financial advisors, financial analysts, and support staff.

This decision became much easier a few months ago when Tim agreed to conduct a Retirement Planning Seminar for my wife Mary Ellen's former employer in Southfield. It was Mary Ellen's responsibility to set up the seminar and find a speaker, and as much as I

Office and Personal *continued*

would have liked to present at the seminar, this would have been a conflict of interest.

I still wanted Raymond James as a firm to have a chance at any business the seminar might generate so I recommended Tim and his team. Tim did an outstanding job conducting the seminar and Mary Ellen was impressed with Tim's knowledge, commitment to this business, and his professionalism. Thus, Mary Ellen is in complete agreement with my selection of Tim and the Center for Financial Planning for my succession plan.

Please keep in mind that this is a "worst case scenario" plan. My goal is to bring another younger advisor into our practice in the years to come and then have a gradual transition. I just turned fifty years old a couple of months ago and I can assure everyone that I have no plans on going anywhere, nor do I ever plan on fully retiring.

It's hard to believe that we are in the final quarter of 2011 and entering the holiday season already. I hope that everyone has an opportunity in these coming weeks to take time to enjoy family and friends. Have a very happy Thanksgiving and thank you for reading our newsletter and for your continued trust and confidence.

Warm Regards,

Jeff Brayton

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