

FOURTH QUARTER 2011 NEWSLETTER

Dysfunction in Washington, the continuing debt crisis in Europe and uncertainty about continued growth in the US economy led to a miserable Q3 in the equity markets. The gains posted in the first half of 2011 were erased and we are now solidly in the minus column for the year.

Review of Previous Quarters:

	<u>12/31/10</u>	<u>06/30/2011</u>	<u>09/30/2011</u>	<u>YTD Change as of</u> <u>09/30/2011</u>
S&P 500	1,257.64	1,320.64	1,131.42	-10.04%
Dow	11,577.51	12,414.34	10,913.38	-5.73%
NASDAQ Composite	2,652.87	2,773.52	2,415.40	-8.95%
MSCI EAFE	1,649.69	1,798.08	1,373.33	-16.75%
10-Year Treasury Note	3.29%	3.17%	1.92%	-137 basis points
3-Month T-Bill Rate	.13%	.02%	.015%	-11.5 basis points
Price of Gold (COMEX)	1,422.00	1,501.70	1,622.30	+14.09%
Crude Oil (NYMEX)	91.40	94.71	79.20	-13.35%

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.

- **Treasury Bills** are certificates reflecting short-term (under one year) obligations of the U.S. government.
- The **S&P 500** is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market.
- The **NASDAQ** composite is an unmanaged index of securities traded on the NASDAQ system.
- The **Dow Jones Industrial Average (DJIA)** commonly known as "the dow" is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.
- The **MSCI Europe, Australasia and Far East Index** is a market capitalization weighted selection of stocks from 21 developed nations excluding the US and Canada.
- **COMEX** is a Designated Contract Market that offers products subject to COMEX rules and regulations.
- **NYMEX** is a Designated Contract Market that offers products subject to NYMEX rules and regulations.

Uncertainty Abounds

The difficulties began in late July with the political theatre surrounding the debt ceiling debate. Few on Wall Street doubted that an agreement would be reached that would keep the federal government open for business. The contentious and unproductive tone of the debate, however, highlighted the level of dysfunction in Washington and undermined confidence that our leadership is up to the task of addressing spending, taxes and entitlements.

In the midst of the political drama, new statistics were released indicating anemic GDP growth and a downward revision in the growth estimates from earlier in the year. The prospect of recession was immediately on the front page of newspapers across America.

Meanwhile, the continuing debt crisis in Europe began to weigh more heavily on the markets with each passing day. Most of the attention has been focused on Greece, which appears to be the weakest link in the EU. The analysts we

follow have little faith that Greece can meet its obligations. Greece is quite certain to run out of money without continued help from the EU and the IMF. These rescue measures are contingent on the acceptance of austerity measures which Greek citizens have generally rejected. Many would argue that an orderly default would be the best outcome. Delaying the inevitable only harms other EU countries as the problem lingers. If Greece is allowed to disengage from the EU it could revert to its own currency and begin printing money.

Until we have an outcome, our belief is that the continuing uncertainty will result in elevated volatility in both equity and fixed income markets.

The MCM View

Turning back to the US, our view is that Washington must work to restore confidence among America's business leaders. At the moment, it appears that US companies are convinced that it is too risky to hire additional workers and make capital investments given the uncertainty surrounding national health care, government regulation, taxes and the federal budget debate. With the prospect of weaker economic growth thrown into the mix, many corporations are opting to manage defensively.

The selloff of the last two months has been painful; however, we should keep things in perspective. The market indices are all still higher than they were at this time last year and we certainly have enjoyed a remarkable recovery from the lows of March 2009.

We do believe that caution is warranted as we look out over the next few months. The positive trends that had been in place have broken down and the burden of proof now rests on the side of the bulls. It could well be a *muddle through* environment with no clear direction for the economy, no resolution to the European debt crisis and no indication that US politicians can put together the grand compromise that is needed.

Most market participants appear quite frustrated and it is difficult to find any optimists. Both equity and bond markets seem to be pricing in a recession. Ironically, the dearth of bulls is actually a positive contrary indicator and both equities and bonds could do better if it turns out that recession is not in the cards.

While we are advising caution in the near-term, we should point out some potential positives that may help in the longer-term. American corporations are sitting upon a huge stockpile of cash. Many are focused on returning cash to shareholders either by raising dividends or buying back stock. Price to earnings ratios seem modest given the low level of inflation and interest rates. If earnings hold up, stocks will prove to be an attractively priced asset class.

In the *lost decade*, S&P earnings have nearly doubled with hardly any corresponding increase in stock prices. There is little doubt that value is being created even if it is not reflected in share prices any time soon.

Turning to fixed income, we find that municipals have been a bright spot this year. The irrational fear that was so much in vogue in the later part of last year has slipped away as most states have experienced an increase in tax receipts. This, combined with a greatly diminished supply of new issues, has led to stronger prices across the municipal market.

We have experienced some surprise on the taxable side of the bond market. Prices have moved higher, causing yields to move even lower, in the high quality segment of the market. Such issues have handily outperformed riskier bonds so far this year. The yield spread of high yield bonds over Treasuries has widened considerably as this has played out. Our thought is that one must place a foot in both camps. High quality bonds are likely to perform better if a recession comes to pass; however, higher yielding bonds are increasingly attractive given the substantial yield differential versus Treasuries.

Managing Risk

The tremendous swings in the market have convinced us that risks in retirement savings need to be shared. In past generations, individuals were largely spared from market gyrations as they were covered by traditional pensions where plan sponsors bore all of the market risks. In today's world, most individuals have only 401(k)'s and IRA's and are responsible for both risks to the market value and risks as far as producing an income stream that can last a lifetime. We offer annuity products designed for risk management and would be happy to discuss this concept with you. We believe that, where suitable, investors preparing for retirement, and many already in retirement, should at least consider this type of vehicle for a portion of his/her retirement savings.

In today's environment, to take no risk means that one must accept virtually no return. In our view, the challenge today is to figure out how to take an acceptable level of risk in order to achieve a reasonable return. If we are to accept risk, then we must do everything in our power to manage carefully. Among the tools we use at MCM are: asset allocation across cash, bonds, equities and real estate/tangibles; regular portfolio rebalancing; trend analysis; trailing stop loss orders, and; an allocation to investments which provide a reliable income stream.

MCM – Personal Notes

Congratulations to **Claire Preston** on her second anniversary at MCM. Claire and husband, Gene, are now empty nesters with son, Geoff, at Villanova and daughter, Haley, settled in as a freshman at Elon University.

Maureen Nyman will soon travel to RJ corporate headquarters to participate in the Advanced Branch Professionals training program.

Bob has been especially busy, working by day and studying for the Certified Financial Planner designation by night. Somehow, he still manages to be the consummate husband and father. Even with three active kids, he rarely misses a soccer or lacrosse game.

Hilary recently participated in an Investment Advisor Symposium at Vanguard Corporate Headquarters and has come away with some new ideas for enhancing client portfolios. She has also been hitting the books, studying for the Wealth Management Strategist/Specialist designation.

Bill has just entered his second year in the Strategic Coach program. SC is designed to help entrepreneurs manage superior businesses that produce high client satisfaction while maintaining a balanced and healthy lifestyle.

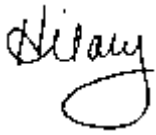
On a bittersweet note, Bill and Bob suffered the loss of their dad, Bill Sr. on August 5th. Dad lived happily and in good health for almost all of his 90 years. He passed on peacefully, surrounded by family. There are literally hundreds of photos of Dad with a big smile on his face and one or more grandchildren on his knee. This provides great comfort. Although Dad spent most of his career as an accountant at Western Electric, it was his love of investing and the markets that inspired his sons to enter the investment management profession. Thank you so much for the numerous expressions of sympathy and best wishes.

We are very appreciative of your loyalty and referrals. Thank you for your continued trust and support.

Sincerely,



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Income from municipal bonds is not subject to federal income taxation; however, it may be subject to state and local taxes and, for certain investors, to the alternative minimum tax.

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