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SULLIVAN ASSOCIATES

AN INDEPENDENT REGISTERED INVESTMENT ADVISOR

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Index percentage change since the beginning of the year:

- **DJIA: +5.5%**
- **S&P 500: 0.0%**
- **Nasdaq: -1.8%**
- **DJ Global ex US: -16.3%**
- **Barclays Aggregate: +8.2%**

Source: WSJ, January 1, 2012

Inclusion of these unmanaged 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 effect actual investment performance. Individual investor results will vary. Past performance does not guarantee future results.

The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing the stocks of 30 companies maintained and reviewed by the editors of the Wall Street Journal.

The S&P 500 is an unmanaged index of 500 widely held stocks that is 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 Global ex US is a stock market index measuring equity securities traded globally in 64 countries, excluding the U.S.

The Barclays Capital US Aggregate Bond Index is a benchmark index composed of US securities in Treasury, Government-Related, Corporate, and Securitized sectors.

Reflections on 2011; Optimism for 2012

Pat's View

It would be an understatement to say that 2011 was an unusual year, as we continue to see – even now – unprecedented world events having a substantial impact on the world economies. These events have caused a great deal of volatility in the markets and have increased uncertainty and fear for investors. While the Dow Jones Industrial average, which consists of only 30 stocks, made an impressive 5.5% gain for 2011, the Dow Jones U.S. Total Stock Market Index was down 1.4%, and the S&P 500 was essentially even for the year. If we look away from the U.S., the Dow Jones World Index, which excludes the U.S., was down 16.3% as international markets were generally off last year. One of the best markets for 2011 was gold, which made an impressive gain of 10.2% return for 2011.

While looking backwards is always interesting, we need to look ahead to measure the probabilities of where we may potentially achieve a reasonable rate of return and also to see how we will provide portfolio risk management should there be any continuation of negative events. The year 2012 is already shaping up to be an interesting year. The uncertainty in Europe continues and the historic changes in the Middle East also continue to unfold. We would anticipate seeing much of the same volatility, slow growth, and uncertainty in 2012 as we did in 2011. **This is a presidential election year, and while these years have typically been positive for the markets, history has not been a good market guide in recent years.** Additionally, this may be the most expensive election ever with more mud-slinging and finger-pointing than in previous elections.

When all is said and done we think we will essentially be in the same position we are now. Unfortunately, we do not anticipate the politicians will make a great deal of progress while the distractions of an election year create the opportunity for them to continue to "kick the can down the road."

On the positive side, there are several areas where we are seeing improvement in economic statistics and we are hopeful this trend will continue, providing us with the slow growth we are anticipating for 2012. First of all, unemployment statistics appear to be bottoming and have actually improved in several parts of the country. Secondly, the drop in housing starts has leveled off and has apparently begun turning the corner. Third, the indications of better-than-anticipated holiday spending by the consumer point to the hope that the all-important category of consumer spending may also have bottomed. Fourth, the monetary policy by the Federal Reserve is positive and will help with potential growth. Finally, corporate earnings continue to generally do well which has led to more mergers, acquisitions, and high levels of corporate buy-backs.

While overall we may continue to see some volatility, we anticipate the positive signs will continue and will hopefully be reflected in the markets. Through all of our reading and research, there seems to be a balance of positive and negative projections for 2012 with no overall consensus of opinion. In summary, barring any unusually negative events in 2012, **we anticipate it has the potential to be a reasonable year with overall positive growth.**

Land of Confusion

Kevin's View

"My father and I are constantly discussing the disparate views from the 'experts' of what will come in 2012. They range from a new economic golden age to the economic equivalent of the Mayan prophecy."

If you prefer to receive our newsletter electronically, please send an e-mail to Lori.Hernandez@RaymondJames.com and we will add you to our e-mail distribution list.

Referrals Welcome

We gladly accept referrals. If you know someone who might benefit from our services during these challenging economic times, please let us know.

I was in my car the other day when a song came over the radio that described our current economic/political environment so clearly that I had to share it:

*There's too many men,
too many people
Making too many problems
And there's not much love to go
around
Can't you see this is a land of
confusion?*

~"Land of Confusion"
by Genesis

To call our current situation a "Land of Confusion" is not much of a stretch. My father and I are constantly discussing the disparate views from the "experts" of what will come in 2012. They range from a new economic golden age to the economic equivalent of the Mayan prophecy. Given the lack of consistency of views there is a very real danger of paralysis by focusing too much on what we don't know rather than building on what we do believe. By building on what we currently believe and having the flexibility to adapt to an ever-changing environment we endeavor to navigate through these turbulent times.

So here are four of the key things we presently believe, with the caveat they may change suddenly:

❖ The market volatility caused by our U.S. political process will not abate anytime soon. Any changes that may occur in the political parties in the White House and/or Congress in November are still eleven months away. In the meantime we cannot count on clarity from Washington D.C. **For investors, this means increased market risk requiring a focus on risk management.**

❖ The market volatility caused by the European debt crisis should come to a head in 2012. European governments have not found a solution to the problems of the southern belt of countries teetering on the edge of insolvency. We expect at some point in 2012 they will either find a solution or one (of sorts) will be forced on them. Either way, we may see large swings when the situation resolves. **For investors, this likely means minimizing exposure to European markets overall while still looking for good bargains as they come available.**

❖ A consistent theme continuing from 2011 to 2012 is large dividend-paying stocks from U.S. companies with strong balance sheets. Corporate America has shown strength through this period (financial companies excepted). **For investors, we continue to view this as a potential area of opportunity.**

❖ We expect the Emerging Markets to slow but also continue to show growth levels far above the developed economies. **We encourage investors, when suitable, to consider investing either directly in those economies or, at the very least, to invest in U.S. corporations with high exposure to those economies.**

The four ideas above provide a good foundation for investors during this time. As mentioned earlier, circumstances can and will change as we go through the year. Adaptation is the surest defense against the unknown.

Finally, it is interesting to note the above song was written during the mid-1980s – the height of the Cold War and a time marked by many terrorist attacks in Europe and political unrest in many places; a time which only through the lens of nostalgia looks much simpler than today does.

Keeping Market Volatility in Perspective

When markets are volatile, sticking to a long-term investing strategy can be a challenge. To keep the ups and downs in perspective, it might help to look at past market cycles to see how recent market action compares.

Bears versus bulls

Corrections of 10% or more and bear markets of at least 20% are a regular occurrence. Since 1929, there have been 18 previous 20%-plus bear markets (not including 2011 market action). Losses on the S&P 500 in those markets ranged from almost 21% in 1948-1949 to 83% during 1930-1932; the average loss for all 18 bears was 37%.^{*} However, since 1929, the average bull market has tended to last almost twice as long as the average bear, and has produced average gains of about 79%.^{*} Individual bull market gains have ranged from 21.4% at the end of 2001 to the nearly 302% increase registered during the 1990s.^{*} The worst annual loss--47%--occurred in 1931, but the all-time best annual return--a capital appreciation gain of just under 47%--happened just two years later in 1933.^{**}

Points of reference

This year has seen extreme volatility, with weeks and even days when swings of several hundred points in both directions on the Dow seemed to become commonplace. In the first week of August alone, 2 of the Dow's 11 best days in history alternated with 2 of its 11 worst daily point losses ever.^{***} While by no means normal, the highs and lows are hardly unprecedented. Even though the 634-point drop on August 8 felt historic, it didn't begin to match the real record-holders. The single biggest daily decline occurred in September 2008, when the Dow fell 778 points. The biggest percentage drop was October 1987's "Black Monday," when the Dow fell almost 23%; that makes the Dow's 5.5% loss on August 8 of this year seem

relatively tame by comparison. And August 8 was followed by the Dow's 10th best day ever, with a gain of 430 points. While that upward movement may seem exceptional, the Dow's best day ever came during the dark days of October 2008, when a 936-point move up on October 13 represented a gain of more than 11% in a single day.^{***}

Stocks versus bonds

The last decade has been a challenging one for stocks. Between 2001 and 2010, the S&P 500 had an average annual total return of just 1.4%, while the equivalent figure for Treasury bonds was 6.6%.^{****} For much of that time, interest rates were falling, helping bonds to outperform stocks. However, interest rates are now at record lows, and rising rates could change the relative performance of stocks and bonds. Many experts predict that the global economic recovery will continue to create an uncertain investing environment in coming years, with both strong rallies and strong downdrafts. While there may be ongoing volatility in the markets that needs to be monitored, it's important to keep things in perspective; your ability to meet your long-term goals could be affected if you change your overall game plan with every new headline.

November 30, 2011

DATA SOURCES:

^{*}Bull and bear market time frames, gains/losses: all calculations based on data from the *Stock Trader's Almanac 2011 for the Standard & Poor's 500*.

^{**}1931 and 1933 annual stock returns: based on Ibbotson S&P 500 data for capital appreciation of S&P 500.

^{***}Based on data from the *Stock Trader's Almanac 2011*.

^{****}10-year rolling stock returns: based on Ibbotson S&P 500 data for annual total returns between 2001 and 2010 of S&P 500 and an index of U.S. Treasury bonds with an approximate 20-year maturity.

This material was prepared by Raymond James Financial Services, Inc. Member FINRA/SIPC.

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