



Stanton & Castleton, Inc.

An independent firm

2011 4th Quarter Capital Markets Outlook

Towards the end of each quarter we meet several times to discuss any changes in our outlook for the current year. We both will have reviewed several Capital Market Outlook publications from a number of respected investment houses including Raymond James. This along with our research of the global markets from both an economic and geo-political perspective helps us establish our expectations for the coming year.

Our objective is to establish a framework for how we believe the markets may behave and identify what we see as the major risks to investments across all market segments. We do not pretend to be able to predict what will happen in the future, rather we want to establish confidence that the portfolios we recommend are balanced to benefit from positive market environments and help to reduce risk exposure through diverse asset allocation and manager selection during negative market periods.

This Quarter we want to depart a bit from the usual format. We decided to put out an internal memo we write called “Our Point of View” in a newsletter a couple of months ago. This was well received and we thought to just expand on that paper for this quarter...so here it is:

Our Point of View

(October 2011)

Current:

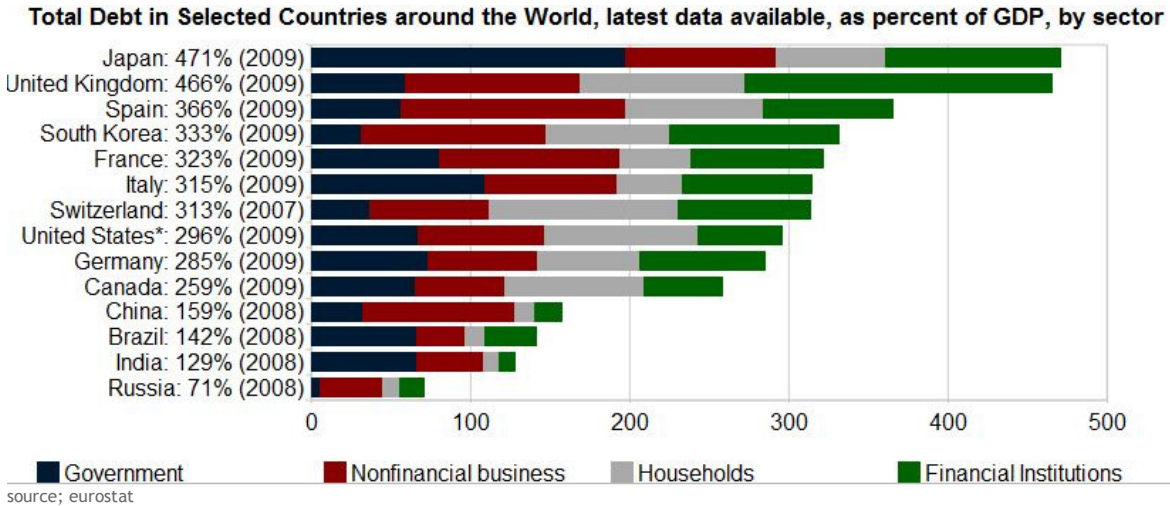
The recovery from an economic Recession or Depression that is born from excessive credit expansion and leverage requires more time than the more familiar manufacturing/inventory recessions. Our estimation is 3-7 years, with tepid overall growth rates in GDP until debt-to-income levels trend toward the long term averages. This can increase overall market volatility as conflicting economic data confuse the major underlying issue: Once debt levels are reduced, *if the consumer emerges as a more frugal saver and*

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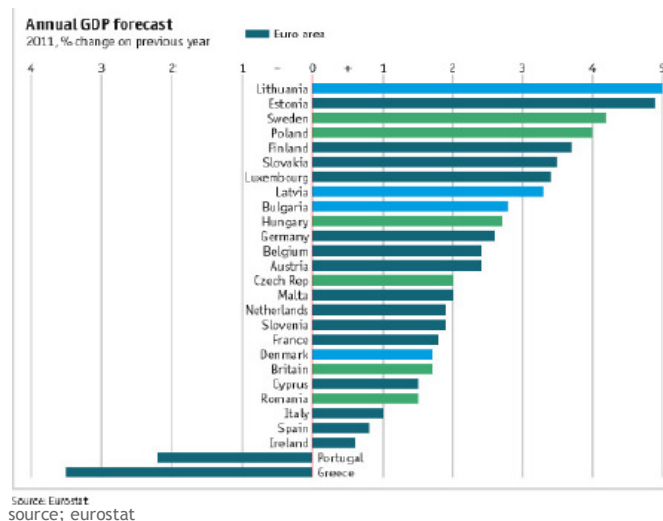
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selective spender we could enjoy an extended period of economic growth. Just as the excess expansion took the markets past “reasonable” valuations the contraction process may create periods of “unreasonably low” valuations ... which we view as opportunities to invest.

Let’s look at how debt expanded in the last decade world wide for governments, corporations and individuals:



In the above chart we can see where these levels were when the global recession of 2008-2009 took hold. Today after the massive government efforts to stabilize economies debt levels are even greater. In the U.S. alone total U.S. Government debt has increased 41.5%, from \$10,626,877,048,913 (that is approx \$10 Trillion) to the current (as of 11-15-2011) \$15,033,607,255,920 (that is over \$15 Trillion).

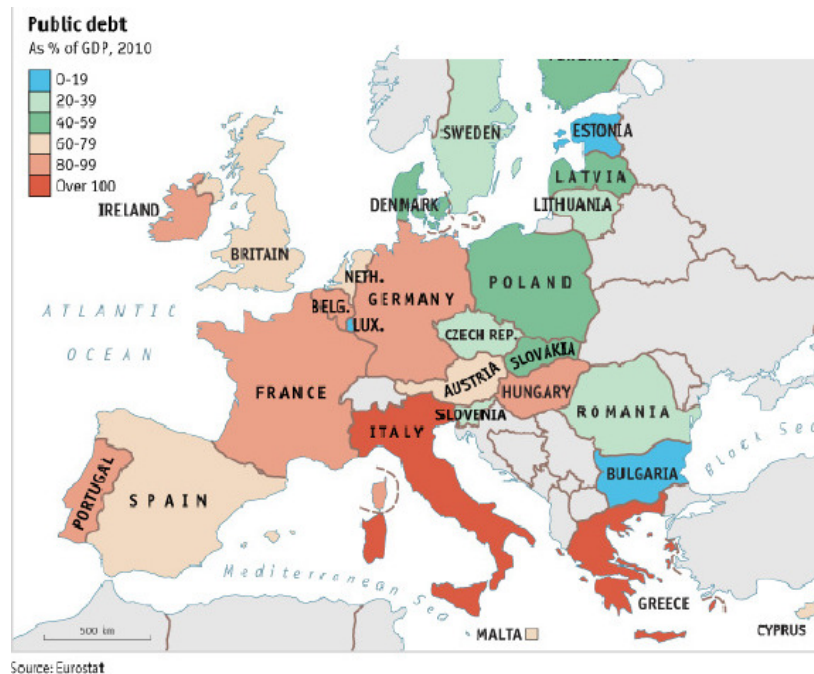


While on the surface this can be disturbing, it is not unexpected as the role of governments is to step in and support markets and economies when a system wide capital access “vacuum” occurs and confidence fails. However, as the system stabilizes we need total economic growth to return to levels that supports our current debt and facilitates repayment. The current downward trend in GDP growth forecasts both here and abroad mean the near term ability to reverse the debt trend could be limited. (chart above)

This has been a global issue and each nation or group of nations are working to correct their own imbalances in spending and revenue. Already at the city, state and national levels we are addressing steps to correct these imbalances, but this takes time. Mix in with this the nervousness and at times waning confidence by the public at large that we will find workable solutions...and we get the kind of overall market volatility we have been experiencing.

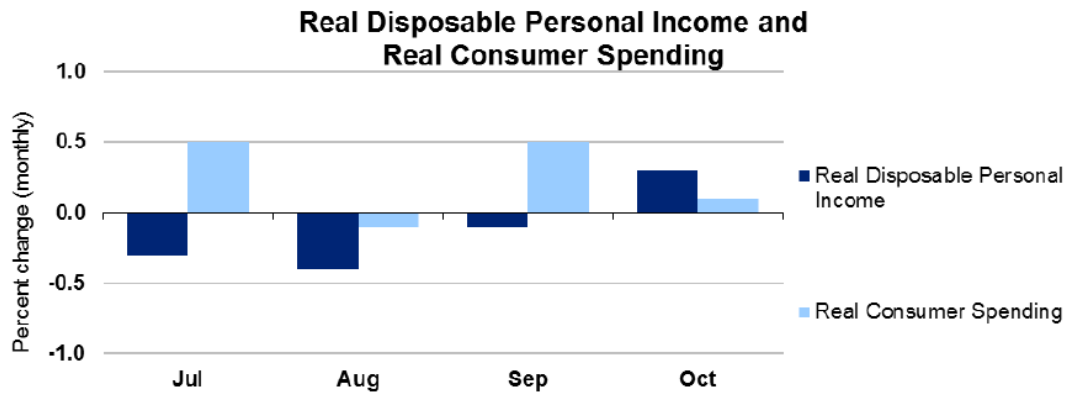
Near (current year):

Slowing growth as world credit excesses are still weighing on capital and investment. The uncertainty over a second recession and solutions to recapitalize European debt will keep markets volatile.



The improvement in banking and corporate balance sheets of the last two years should begin to show signs of new capital investment. The consumer’s household balance sheet improvement should also begin to show

improvement, however we feel a more frugal spending pattern will persist for some time extending the time it takes to reach more normal recovery growth levels of the past. In the U.S. like other countries real consumer spending is directly influenced by real personal income. Our protracted period of high unemployment and low job creation can place limits to the pace of recovery.



BEA, US Department of Commerce

Looking into recent European debt problems in Greece which are now spilling over into Italy and Spain, causing concern for the survival of the Euro currency, it is possible the start of 2012 will continue to experience global market volatility. If Europe falls into recession it would also likely effect the U.S. GDP growth to some degree. These factors could slow the pace of recovery; however we view them as necessary in order to establish longer term sustainable growth for the decade.

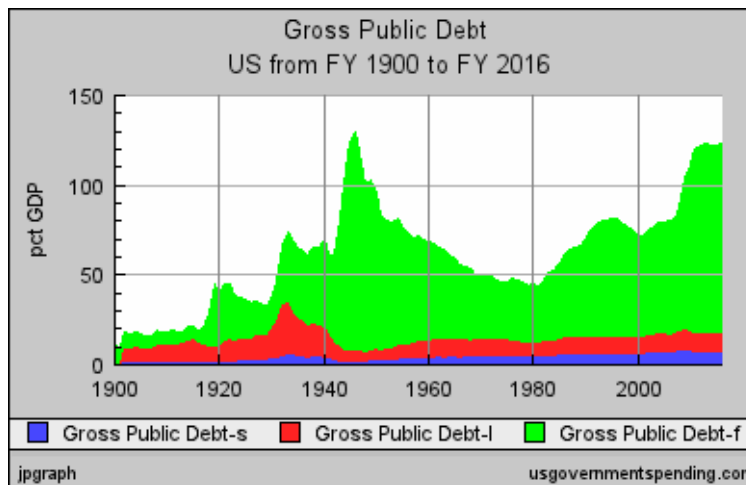
Intermediate (3-5 years):

As household balance sheets improve from increased savings, reduced debt levels and consumption we see a “tipping” point emerging. This is when overall personal discretionary capital available for saving and spending will improve. This more secure personal wealth should “tip” consumers into being comfortable with additional discretionary spending. In turn this will potentially add to higher economic growth, more jobs available and eventually an increase in demand for homes. The resulting appreciation of the housing market will affect overall wealth and attitudes towards spending and investment.

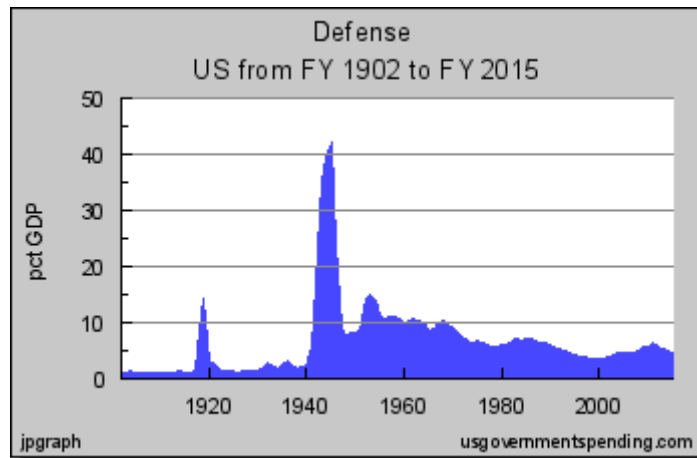
In short, we will begin to have the kind of sustainable post recession recovery that we are use to. The difference may be that, *if the consumer*

emerges as a more frugal saver and selective spender we could enjoy an extended period of economic growth. In this scenario we could see 3-4% consistent GDP growth. If we were to see 4, 5, 6 plus years in a row of this type of growth our total debt levels could be significantly reduced.

We have had periods of high government debt levels during unusual times, often during War spending jumps. In the past decade we have had a protracted conflict and a domestic economy that leveraged beyond historical norms in real estate. With time and growth our overall debt levels should contract as a percentage of overall GDP.

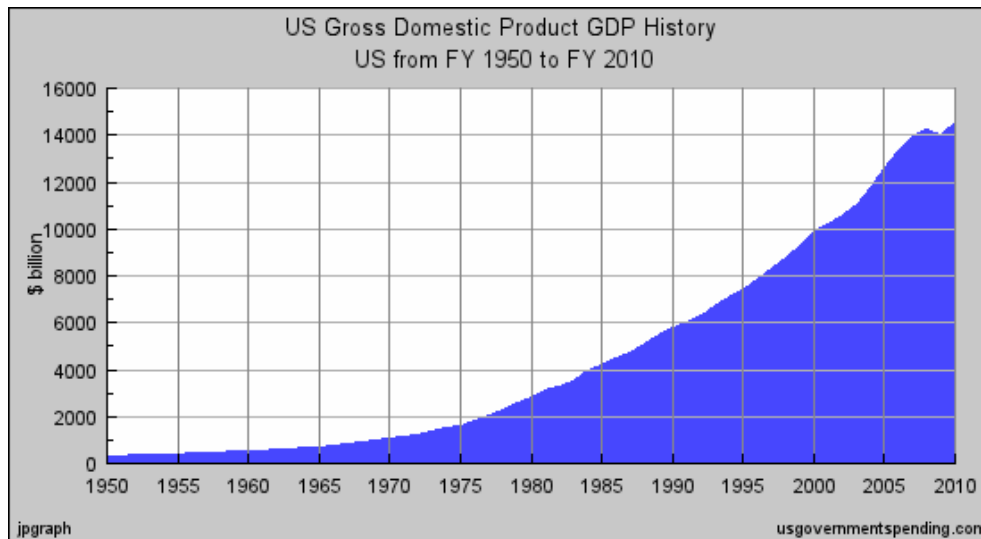


We have to be careful to not overstate the impact of war related spending. While it is true our defense spending has gone up this decade and impacted total government debt, the primary reason was the collapse of the real estate market and the government assuming the risk of collateralized mortgage bonds issued by agencies. Saving the “system” has proven costly.



Long (decade):

Our belief is once you step back and look at our historical long term ability as a Nation to grow the economy, we can begin to see how in the longer run things could work out very well. It is possible the future may bring about a different outcome; however the chart below gives us optimism in our future.



Growth accelerating into the end of the decade should help markets return to the long term average returns, not seen in a decade. *We see this decade improving each year making investing long term potentially very profitable; however, near term volatility may continue to test investor resolve.*

“In the end, how your investments behave is much less important than how you behave.”

**Benjamin Graham
The Intelligent Investor**

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