

LEONARD A. WEISS  
SENIOR VICE PRESIDENT, INVESTMENTS  
LEONARD.WEISS@RAYMONDJAMES.COM

LOWELL J. WEISS, WMS  
FINANCIAL ADVISOR  
LOWELL.WEISS@RAYMONDJAMES.COM

WEISSWEALTHMANAGEMENT.COM

DJIA: 12,217 | NASDAQ: 2,605

## GOING VIOLENTLY NOWHERE?

On November 30<sup>th</sup> 2006, The Dow Jones 30 Industrial Index (DOW) closed at 12,225 and on November 30<sup>th</sup> 2011 closed at 12,045. We will give the index the benefit of the doubt and call it unchanged for the last 5 years. But, the DOW traveled 133,641 points up and down in this period of time. The DOW has fluctuated ten times itself in total points, and is pretty much where it was in November 2006.

We call this going violently nowhere. By violent we mean that investors have had to tolerate nauseating levels of volatility without any real return to show for it. Further, the DOW's 10 year return is also well below its historical norm. In the last 5 years, we have collectively endured great economic stress. Without meaningful job creation the Great Recession will never be really "over" for millions of us.

Five and 10 years are not short periods of time. We believe the general investment public has been patient. Markets that go violently nowhere without any real returns erode investor confidence in their investment plan. This is mostly true of the traditional investment strategy called buy and hold. The thought behind the strategy is that broadly diversifying over all asset classes will allow the rising tide of the markets over the long term to float all boats. In a general sense this strategy is like a giant index investment. Indices in general must rise for the portfolio to show real long term growth.

Anyone who has employed buy and hold has seen wild fluctuations in their portfolio value without much real return for several years now. It feels like your experiencing the risk without any return, and we think you're right. Portfolios of pre-retired and retired people that show with little to no growth for five years or more can have their long term financial goals threatened. We understand that this by itself is a driver of financial anxiety for people between ages 50-65. Weiss Wealth Management of Raymond James does not employ this market strategy. We believe the buy and hold approach can be as much a mine field as a pasture of opportunity.

In the last edition of TWR, we highlighted our strategy to focus our investments into sectors that are reporting rising earnings in businesses that have very visible revenues and high growth prospects. We have concentrated our efforts on high dividend paying stocks with great potential for continued dividend growth. High income stocks not only grow well in up markets, they could help buffer volatility in down markets. (See Enclosure #1) Portfolios we manage by discretion know that our results in the last five years have held up very well despite near zero growth in the aggregate stock markets.

**SUMMARY:** We agree that the stock markets have been going violently nowhere. Markets that travel 133,641 points to show no net return in 5 years should make one feel like they are sitting in a row boat in the movie The Perfect Storm. We are proud to show our discretionary clients their returns for the 2006-2011 period. They are based on our income driven alternative asset allocation.

## **WHY ARE THE MARKETS GOING VIOLENTLY NOWHERE?**

How much time do we have? The reasons for the domestic stock market's almost 0% return the last five and 10 years are many. Below are just a few of the push and pull forces we think have driven the volatility:

- Cyclical recessions in 2001 and 2008. Trillions of dollars of lost wealth has occurred without the onset of a new wealth creation wave.
- The subprime mortgage product that produced the real estate price implosion.
- The subprime mortgage securitization which created complex derivatives that were sold to conservative investors leading to the banking crisis.
- The Euro currency and European economic crises.
- Government economic policies that have not worked nor in our opinion, should they have worked. This has created a subpar recovery.

These items are all individually capable of creating high levels of economic stress. Together, they produce excessive volatility. We think it is likely that we will need more clarity on the above listed conditions before the markets will return to a more trending environment.

## **WHAT MIGHT WE SEE AHEAD?**

The shortest answer to the above question is more of the same. The market stressors from the Euro debt problems are not in our control. In our opinion, the markets will continue swing back and forth, likely violently, as the news unfolds.

In our view, the trading range the DOW has been locked into for almost two years should continue until there is reason to believe that aggregate economic growth will finally accelerate.

Looking ahead, we also think the extraction of oil and natural gas from shale rock trends will continue accelerating. We continue to use this trend as a primary investment opportunity. We have submitted to our readers a half dozen or more articles and graphs showing this trend's potential. To show you a different perspective of this trend, we would like to show the growth benefits of Fracking shale rock through the eyes of a resident of north east Pennsylvania. The

following is an excerpt from a letter to the Wall Street Journal, published December 3<sup>rd</sup> 2011 regarding economic growth in the area:

**“Your editorial ‘The Non Green Job Boom’ (Nov26, 2011) referring to the Marcellus shale production in Pennsylvania omits mentioning the massive collateral benefits that demand notice. Most private land owners in N.E. Pennsylvania, own the gas rights to their properties and have leased them to the energy companies for initial bonus payments ranging from small amounts to as much as \$5,000 per acre. Royalty payments...often resulting initial landowner annual income above \$10,000 per acre.”**

**“Of course these payments are ordinary income for federal and state tax purposes...Many who paid their real estate taxes out of Social Security can now afford autos, farm equipment, home repairs and charitable giving...”**

We believe this letter is an example of Supply Side Economics. The shale energy boom is a private sector affair. We see this as proof that if the government would get out of the way of the private sector, capital is put at risk, jobs get created and dole takers turn into tax payers.

## **PORTFOLIOS**

Assets managed by discretion have seen some changes since this time last year. In our April 2011 edition, we stated that we would be reducing overall equity allocations. In July, we employed the tactical process of moving assets dedicated to traditional domestic growth investments into cash. Markets were becoming extremely volatile, and reducing exposure to equities reduces the excess volatility in our accounts. These assets were put back to work in September and October. We are fully invested at this time.

The extraction of oil and natural gas from shale is growing robustly. As new energy is found, it needs access to pipeline systems to move from the field to processing. We have been invested in energy pipeline MLPs for many years. We have enjoyed consistent dividend and price growth thus far. The Fracking boom in the Dakotas, W. Texas, and the Ohio/Pennsylvania regions has provided organic growth for pipeline companies. This expansion could last for years as new pipelines and processing centers allow for continued growth. (See Enclosure 2) We are pleased to inform readers and clients that 5 of the 8 individual MLPs we own in discretionary portfolios raised their dividend in their most recent payout! We can only hope that the next few years of total returns equal the returns we have achieved in the previous few years.

Portfolios managed by discretion have added a growth component from the shale energy recovery trend. Energy recovery is also very good business for well equipment and service providers as well as transportation companies.

By focusing on sectors and individual companies that are growing and have positive outlooks, we have been able to avoid any real concerns about banking, Europe, or whatever the dire prediction of the month is. We think Sir John Templeton's tenet is right; “Keep it simple and make money. Let the intellectuals worry their way out of a fortune.”

While we see opportunity in certain equities, our opinion of long term bonds and other fixed income instruments is completely reversed. We noted in our July 2011 commentary that

adjusted for current inflation, even 30 year Treasury bonds had a negative net return. We interpret this condition as a signal that the risks of owning long term bonds currently exceeds their opportunity. Why should anyone loan money to the government and lock in a negative real return?

Interest rates in general have been declining for 30 years now. Rising rates are a significant risk to bond investors. As rates rise, the monthly value of bonds on investor statements should decline. Clients know from our meetings and conversations that we have exited long term bonds in favor of cash and an increase in our energy pipeline MLPs to keep portfolio cash flow at expected levels.

**IN SUMMARY:** Our discretionary portfolios are constructed to pursue consistent, rising income and conservative growth. At this time, we think the best way to achieve this goal is to use a focused approach rather than the traditional broad diversification indexing approach that is so popular. We will continue to look for MLPs that have potential for rising dividends, and opportunities in equities that are growing now.

## **ENCLOSURES**

Enclosure #1: This enclosure provides a view of how high dividend paying stocks can cushion a stock's price during declines. The illustration is courtesy of a daily stock market commentary written by Arthur Huprich, chief chart watcher, for Raymond James. On page two of the commentary, he breaks down the Standard and Poor's 500 Stock Index (S&P 500) by highest dividends paid to lowest placing them in deciles. He then measures their price performance during the recent stock market correction. It's easy to see the top dividend payers in the S&P 500 (columns on the left) declined much less than the lowest dividend paying stocks (columns on the right).

Enclosure #2: In a single picture, this enclosure provides a simple flow chart of the operations of an MLP and is courtesy of the website of Enterprise Products Partners. It tells the story of what is called in the industry "mid-streaming" of petroleum products. Mid-streaming is when crude oil or natural gas is moved to storage, processed into refined product and put back into storage to be shipped along to retail markets.

When you look at the picture, please note that profits are made at every point where an amber colored line is placed. The top half of the picture shows how natural gas liquids are stored and processed. The bottom half of the picture shows of the crude oil processing story. We think this piece makes much easier to understand this industry.

Enclosure #3: Returning for another year, Weisstradamus has provided 10 predictions for the upcoming year. Topics include forecasts for the market, politics and sports.

### **Important Disclosures**

This report is not intended as a complete description of the securities, markets or developments referred to herein. It should not be viewed as an offer to buy or sell any of the securities mentioned. Information has been obtained from sources considered reliable, but we do not guarantee that the foregoing report is accurate and complete. Additional information and sources are available upon request.

The enclosures are being provided for informational purposes only. They do not necessarily reflect the opinion of Raymond James & Associates or its employees. Raymond James & Associates does not render legal advice on tax or legal matters. You should consult with a qualified tax advisor prior to making any investments decision.

Past performance does not guarantee future results. There is no assurance the trends mentioned will continue. No investment strategy, including diversification and asset allocation, can guarantee a profit or protect against loss in a declining market. This analysis does not include transaction costs and tax considerations. If included these costs would reduce an investor's return.

International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets. Commodities and other alternative investments are generally considered speculative, volatile investments. When appropriate, they should only form a small part of a diversified portfolio.

Fixed income securities are subject to risks including interest rate, inflation, credit and market risks. If sold prior to maturity, an investor will receive the current market value, which may be more or less than the original investment. Dividends are not guaranteed and will fluctuate. There is no assurance a company will achieve its dividend goal.

The Dow Jones Industrial Average (The DOW) is an unmanaged index of 30 widely held, blue chip stocks. The S & P 500 is an unmanaged index of 500 widely held stocks generally considered representative of the US equity market. It is not possible to invest directly in an index.

Investments in the energy sector are not suitable for all investors. Further information regarding these investments is available from your financial advisor.

Alternative investment strategies involve greater risks and are only appropriate for the most sophisticated, knowledgeable and wealthiest of investors.

MLP distributions are not guaranteed. The actual amount of cash distributions may fluctuate and will depend on the future operating performance. Increasing interest rates could have an adverse effect on MLP unit prices as alternative yields become more attractive.

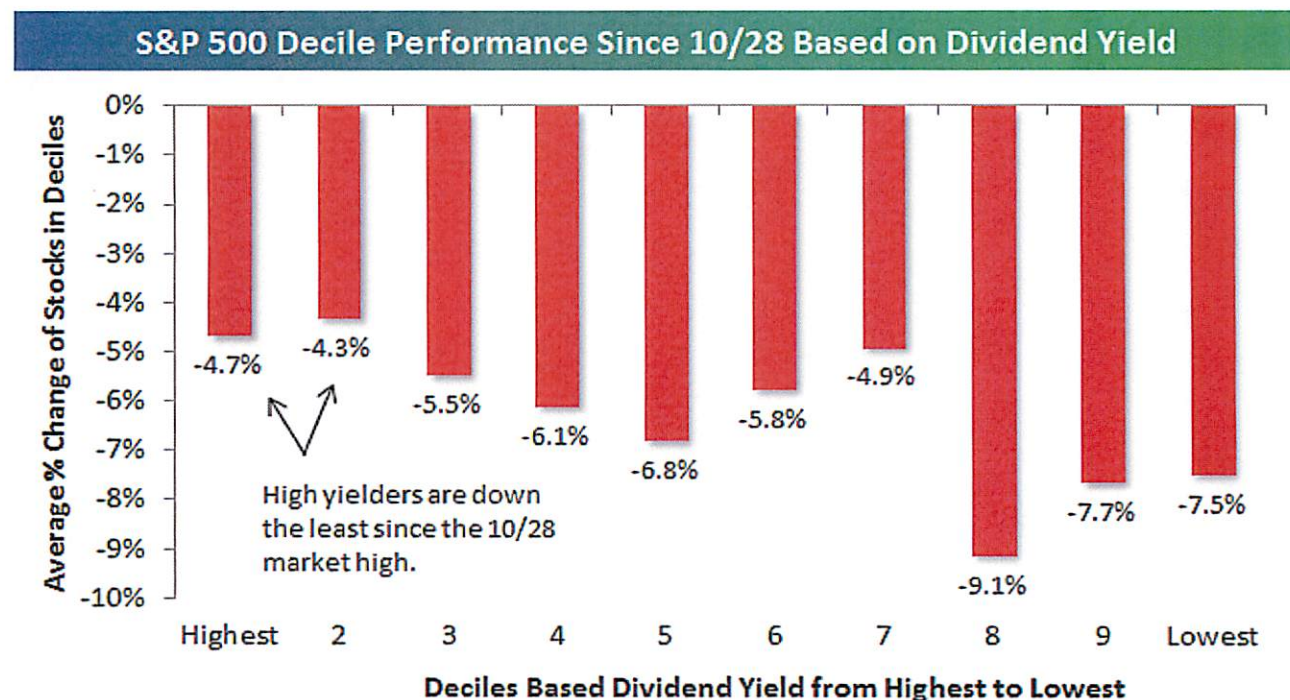
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## How High Dividend Yield Companies Compare?

October 28, 2011 – November 21, 2011

The S&P 500 declined sharply between October 28, 2011 and November 21, 2011. The highest dividend paying stocks in the Index held up much better in the decline than the lowest dividend paying stocks in the Index.



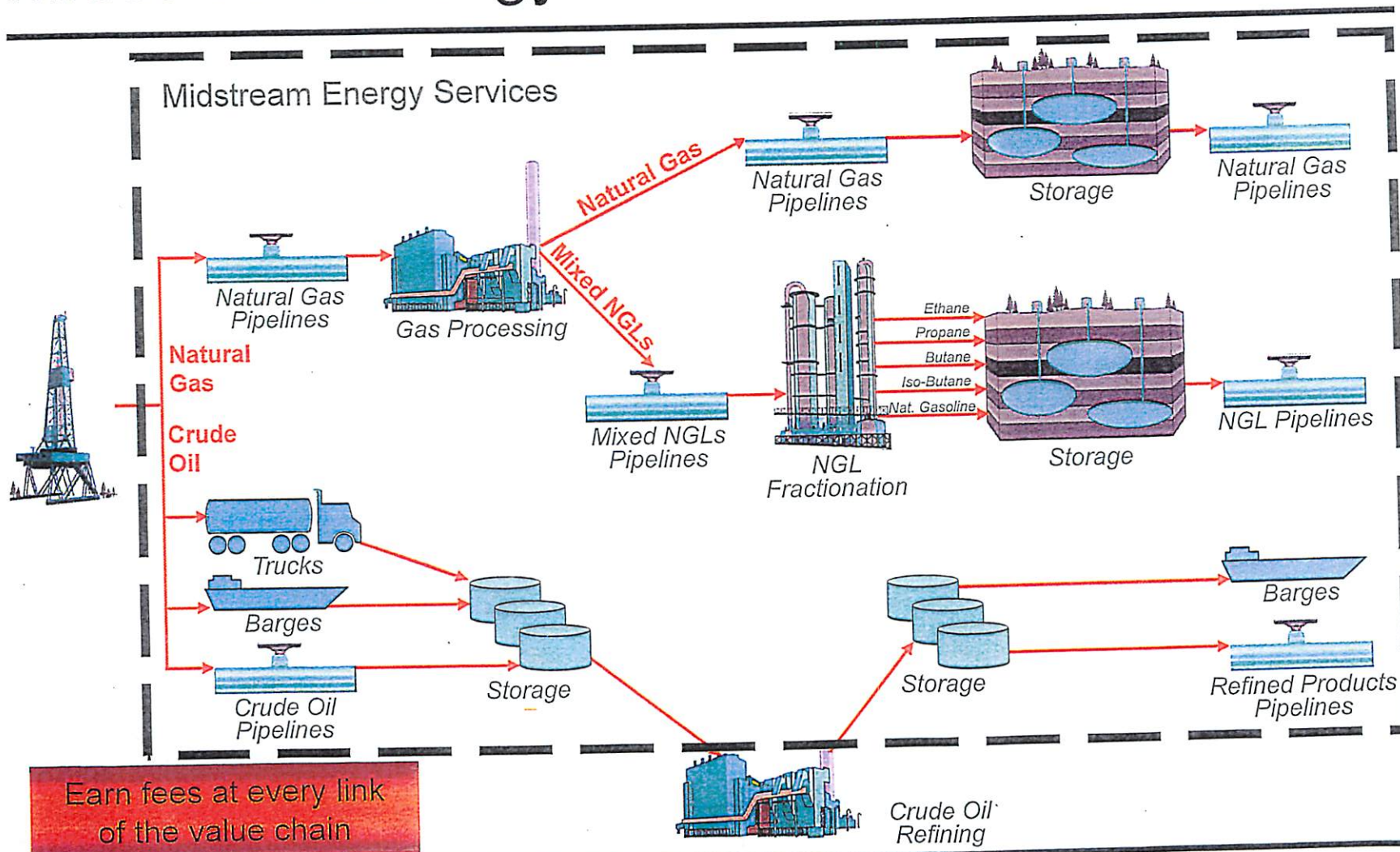
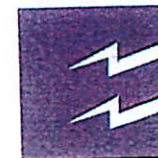
Source: Art Huprich, Raymond James, November 21, 2011.

1. The highest dividend paying stock declined less than 5%
2. The lowest dividend paying stocks declined between 7.5-9%
3. The S&P 500 Index declined 7.2% in the same period of time

The information provided is as of the date above and subject to change, and it should not be deemed a recommendation to buy or sell any security. Certain information has been obtained from third-party sources we consider reliable, but we do not guarantee that such information is accurate or complete. Persons within the Raymond James family of companies may have information that is not available to the contributors of the information contained in this publication. Raymond James, including affiliates and employees, may execute transactions in the securities listed in this publication that may not be consistent with the ratings appearing in this publication.

Additional information is available on request.

# Leading Business Positions Across Midstream Energy Value Chain



## **Weisstradamus' Predictions: 2012**

- 1) The stock market as measured by the Standard and Poor's 500 Stock Index (S&P 500) will stay locked in the trading range between 1000 and 1300. A breakout from either level should mark the beginning of a new market cycle.
- 2) The market should stay in its trading range until it is ready to judge the outcome of the presidential election. The choice we will make for president will determine whether the government's current economic policy should continue or be changed.
- 3) The 10 year Treasury bond rate will rise. The Damus's best guess is to 3 - 3.5% by year end.
- 4) The news in the energy sector won't be wild volatility in price. The news will center on the reduction of foreign oil imports accompanied by new domestic sources.
- 5) Hydraulic fracturing (Fracking) and horizontal drilling technologies will continue to dominate the news headlines. The growth opportunities from this sub-sector will be as fertile an investment in 2012 as it was in 2011.
- 6) The greatest geopolitical risk to markets and investors is Iran. Whether the issue is nuclear weapons, sponsoring of terrorism, or oil flow from the Persian Gulf, 2012 should be a year where tensions rise more than abate.
- 7) There will be more evidence introduced in 2012 that will discredit the "man made global warming" theory than will help it.
- 8) Economic policies of Supply Side Economics will be implemented to re-ignite growth. It will work.
- 9) A President Obama vs. Newt Gingrich televised debate will draw more viewers than any single movie released in 2012.
- 10) The Detroit Red Wings will win the Stanley Cup.

Disclaimer: Weisstradamus is a fictional character. All opinions expressed are those of Leonard Weiss and not necessarily those of Raymond James & Associates. Predictions are made without actual knowledge of whether events will or may occur. The above is not meant to act as recommendations of any sort and are made for entertainment purposes only.