



NOVEMBER 2011 INVESTMENT UPDATE

Dear Friends and Clients,

In this month's issue, we want to give you our firm's perspective of the general direction of the stock markets for the remainder of the fourth quarter and 2012.

Excluding us, many investors feel disappointed or even angry about the poor returns that stocks, in particular, have delivered since 2000. The popping of the internet bubble, followed by the real estate and credit collapse, has left deep scars on many portfolios. In recent weeks, the panic over Europe's sovereign debt problems has again torn open old wounds. Let's look at the pros and cons of the health of the economy as well as its effects on a continuing bull market.

As far as the positives are concerned we can see the following number of pieces falling into place:

1. U. S. businesses have dramatically streamlined operations in the past couple of years, setting the stage for an extended run of good profitability.
2. Consumers have paid down tons of debt, although some more work remains to be done here.
3. Banks have made significant progress in rebuilding their depleted capital.
4. Sooner or later a growing population will draw down the excess inventory of housing.
5. If the Chinese, under pressure from the rest of the world, continue to let their currency drift upward, America's battered manufacturing sector might even enjoy something of a renaissance.

The only major player that has not begun to clean up its financial act is, of course, the federal government. Over the next two or three Congressional Election Cycles, we are likely to witness a pitched battle over government spending. Once the entitlements issue is settled, the nation will have removed the last barrier to a new era of growth and prosperity.

However, as hopeful as we are that those prospects may seem, there are some clouds on the horizon and, of course, the biggest as you know is the European sovereign-debt issue. It is far from resolved despite the recent news from France and Germany. They are now talking about two trillion dollars worth of bailout money for Europe. It is not just the Greek government, despite last week's grand rescue plan by the European Union to attempt to stop the silent run on European sovereign debt. Italy, with an economy that is seven times bigger than Greece, has always posed the greater risk to Europe's financial system. This tells us that the European

nations have gotten themselves way in over their heads in debt. This sovereign-debt is going to take years to resolve these problems.

Most immediately, 2012 will bring several complicating developments:

1. Europe is likely to slip into recession as a result of the ongoing sovereign-debt crisis. China's growth engine is downshifting. Our own tortoise-slow growth leaves us vulnerable to an external shock.
2. America is headed into a presidential campaign with none of the leading candidates committed to a serious program of fiscal reform. The next wave of sovereign-debt panic may well land on our shores.
3. In 2012, a record 3.6 million Americans will turn 65, the traditional retirement age. Generally, these retirees will be sellers of stocks, putting downward pressure on share prices.

None of these factors, singly or in combination, guarantees a bear market for stocks next year. But the risk is high enough to justify an exceptional degree of caution.

As far as our investment strategy is concerned, we continue to maintain our standard two-pronged strategy, which is to maintain a substantial exposure to common stocks (and mutual funds) as long as there is a reasonable prospect for double-digit returns. Furthermore, we will continue to take profits more frequently so that we could gradually increase our weighting in the fixed income portion of our portfolios. Our goal continues to be to increase the fixed portion of our portfolio by building up holdings of bonds and bond-like substitutes such as dividend-rich, low-volatility stocks.

We want to thank all of you for giving our firm the opportunity to serve you. We thank you very much for the trust and confidence you have placed in our firms as it is always appreciated. Please contact me should you have any questions or comments. Also, we want to invite you to visit our website at www.farmandcpa.com for a quick Retirement Calculator, our latest firm news, and Market Commentary archives.