

Jobs Up and Growth Continues

Overview of Fourth Quarter

Let's start this end-of-year newsletter by refreshing our memories of the third quarter. In the third quarter, the S&P 500 dropped more than 14%, ending the first three quarters of the year with a deficit of 11%. This was a mighty hole. Mid cap and smaller stocks fared far worse and the international markets were in disarray. The volatility we witnessed in the third quarter continued into the fourth quarter. The markets moved up sharply in October, took a nose dive in November and in December finally regained much of what was lost in November. When the quarter ended, the S&P 500 had moved from 1131.42 up to 1257.60, for a gain of about 11%. Because the S&P 500 began the year at 1257.64, the loss for the year was on the order of 0.003%. This does not take into account the negative action in other parts of the market where the results were not anywhere near as good. All in all, for investors, 2011 was nerve-racking. The supply of stocks ready to be sold stayed somewhat constant, but demand has been tepid. In this environment the market is staying in a trading range where the lower end keeps rising with no breakthrough at the upper end. This seesaw of ups and downs, within the trading range, accounts for the wide swings daily in the market.

Where the Economy is Headed

In 2011, we saw GDP growth go from 0.5% in the first quarter to 1.5% in the second, rise to 2.3% in the third, and likely end up in the 3% range for the fourth quarter. While we had quarterly growth in 2011, it was a step back from the fourth quarter growth of 2010, which was 3.2%. The Federal Reserve has now stated its intentions to keep interest rates stable until mid 2013, which should help in the evaluation of quality U.S. corporate bonds. Less cash and more mid range bonds would make sense. This is an election year and therefore we might assume that the government will not want to rock the boat. Job creation is on the rise. While it is not as robust as what is necessary to bring down the unemployment rate significantly, we are seeing a movement from over 9% down to 8.5%. New unemployment numbers are staying below 400,000 per week and appear to be trending downwards. This too is helpful for the economy indicating that most of the heavy layoffs are behind us.

The fly in the ointment, however, is Europe. The European Union has been unwilling to put the sovereign debt issue behind them. They need to let the European Central Bank act like the Federal Reserve and allow it to bring liquidity to sovereign debt. The result is a lack of consumer confidence and a likely recession in Europe.

Read more of Ed's thoughts on his blog at <http://secureplanninginc.blogspot.com>

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Will the U.S. Economy be Better in 2012?

As I look at the markets and the economy I am always asking myself if I think the economy will be better a year from today. If my answer is that the economy will be the same as now or better, I become optimistic. If the economy appears to be headed downhill, I become very defensive. At present I am watchful. I think the U.S. economy can go forward nicely if Europe doesn't drag us down with them. It is time for employers to start giving meaningful raises to their employees in order to retain the trained. As salary increases take place, consumer confidence and consumer spending will both increase. In addition, as companies become more confident about the economy, they will spend more and earn more. The spending will help propel the economy further. The better earnings of both workers and companies will increase the amount of taxes collected and help reduce our deficit spending. A real issue, but one that I don't believe will be addressed until 2013, is the magnitude of the federal deficit. On tax matters, my guess is that Congress will do in 2012 what it did at the end of 2010 -- extend the current tax system for another year or two.

I think we will continue to have extensive volatility in the equity markets and, depending on what happens in Europe, quite possibly volatility in the fixed markets. The question therefore is: will the S&P 500 close higher at the end of 2012 than 2011? I obviously don't know the answer to this

question. What I do know is that on April 29th of last year the S&P was at 1363. I believe we could see that again this year. If that were the case we would have a gain of about 8.5% in the S&P 500. I'd be happy to see that at the end of 2012.

Legal Directives

Once again, I would like to remind you to review your legal directives from time to time and check with your attorney on any state changes that have occurred since your last update. Everyone should have a **will** to give clear direction on the disposition of assets upon death. Make sure it's based on your wishes and that the person chosen to be executor is good. A **general durable power of attorney** gives someone else the powerful right to act on your behalf in all financial matters if you are incapacitated. A **durable power of attorney for health care** gives another person the right to make medical decisions for you in the event you are not able to do so for yourself. Finally, you should have a **living will** to tell the hospital and your doctors what you desire for medical treatment at the end of your life.

Thank You

I thank all of you for your support and understanding during this past year. I especially thank those people who have suggested to friends and associates that meeting with me might best address their financial issues. Thank you.

Ed Mallon

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