

Market Perspective: Looking Back and Looking Ahead

January 2012

Looking Back: Mixed Results

While 2011 was a roller-coaster of a ride in the stock market, just like a coaster, the S&P 500 index (an index that represents the performance of the 500 biggest stocks in the US) ended just about where it started at 1,258. And like a roller-coaster, the ups and downs along the way were very unsettling.

Small and mid-cap stocks followed a similar pattern, but ended the year with losses of 4.3% and 1.7% respectively. The turmoil in Europe dragged foreign stocks of developed countries down by 11.8% and emerging market stocks down by 18.8%

Fixed income securities were also mixed. High-quality bonds received a boost as investors chose “safer” bonds over volatile stocks. As a result, the Barclays Aggregate Bond Index (an index that represents investment-grade bonds traded in the U.S.) saw a 7.86% gain for 2011.

On the other hand, high yield (low quality) bonds rose only 4.37% and emerging market bonds declined 1.7%. Historically, we design some of our bond positions to be flexible. This helps us ease downside risk should bond prices begin to fall. While some of these fell short in 2011, we still feel they will provide better long-term results going forward.

Alternative investments were mostly flat for the year. They successfully avoided the significant losses experienced by the stock markets, which were down as much as 20 to 30% at some points

during the year. But market volatility seemed to hold them back from significant growth.

As a result of all the ups and downs, many investors found their portfolios produced mediocre results, at best. This was frustrating for everyone.

Looking Ahead: Cautious Expectations

At the beginning of each year we always look for clear signs as to what lies ahead. If you ask 10 “market experts” for their prediction, you will get 10 “expert opinions.” In reality, no one really knows what will happen.

What we do know is that there are many forces working against investors:

- The developed world is still burdened by heavy debt loads.
- Europe’s financial crisis is very deep and complex, and will continue to play out for many years to come.
- The U.S. political environment remains contentious and an election year brings with it uncertainty as to who will lead and solve the very serious problems our country faces.
- Interest rates remain low. The threat of inflation, however, may cause rates to rise. This would be like accelerating your car with the parking brake on!

We also know that some of the fundamentals of our economy are quite strong:

- Earnings continue to beat expectations for most companies.
- The real estate market is showing signs of early recovery as prices have begun to stabilize, sales volume has increased steadily and inventories are decreasing.
- The private sector has steadily added jobs.
- Retail sales were very strong during the 2011 Christmas holiday.
- The Michigan economy is the second fastest growing among all of the states (Bloomberg Economic Evaluation of States). This is significant since Michigan has historically been a leading indicator for the general US economy.

Since we don't have a crystal ball, we will continue to take a balanced approach to our portfolios so that we will be prepared for whatever market conditions come our way.

Making Decisions

At the start of each year, we pull research from several sources. Then we spend many hours developing strategies for our portfolios. Throughout the year we continue to research

and learn, adjusting the portfolios along the way.

In 2011 we had several opportunities to broaden our understanding of market forces. We attended the Morningstar Conference in June, the Financial Planning Association conference in September, and a private advisor forum at Fidelity in October.

Our goal is to provide our clients with top notch service and investment advice. In 2012 we will continue to seek out opportunities that will help us improve our investment process and portfolios.

Growing Our Team

We are excited to announce that Tim Atkinson recently joined our team as a financial advisor. Keith has known Tim for 8 years as a friend and peer. Tim has been in the financial services industry since 1987 and has spent the last 15 years serving clients while working for a local Registered Investment Advisory firm. He brings many skills with him that will strengthen the advice and services we provide to our clients. Please help us welcome Tim to LifePlan.

Please don't hesitate to call us if you have any questions or concerns. We wish you a happy and healthy 2012!

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