



2011 4TH QUARTER REVIEW

When asked to describe the 2011 U.S. stock market results, one participant simply shrugged and summed things up in this manner: "There was a lot of action, but nothing going on." We concur. And yet the year which had no less than 37 days where the Dow was up or down 200 points has finally been put behind us and we begin to look forward to a new year. For many of us that may mean merely replacing "2011" with "2012" at the top of our resolutions list. But unlike the futility many of us feel when composing such a list of needed (real or perceived) personal improvements, folks concerned with their financial goals often feel a bit of anxiety upon realizing yet another year has passed. Did 2011 get you any closer to your financial goals and objectives? Now may be the perfect time of year to sit down with your advisor and determine if things are "still on track" and to discuss any important changes to your personal situation.

Despite periods of pulse quickening volatility, many equity investors exited the year nearly where they started unless they were heavily weighted in foreign equities which by and large performed significantly worse than U.S. stocks. As we enter a new year we can't help but conclude that many of the risks we fretted over this past 12 months have not been mitigated and while that realization is sobering, some of the headwinds we've endured are showing signs of subsiding.

In this issue we'll offer our insights into what did and did not work in 2011 as well as our expectations and concerns to consider during 2012.

GLANCE AT FINANCIAL MARKETS

Equity Markets

The fourth quarter produced a strong gain for the U.S. stock market. The S&P 500 finished up nearly 12% for the quarter and almost erased the entire loss endured in the third quarter. While it is true that returns by the S&P 500 were less than inspiring for the year (+2.11%), the domestic market was one of the best performing anywhere on the globe. Here in the U.S., large company stocks outperformed smaller company stocks with growth slightly ahead of value. We have continued to weight portfolios in favor of large companies. Smaller company stock underperformance can be attributed to a renewed appetite for the dividends and the slightly lower volatility offered by large company stocks. The foreign stock benchmark (MSCI EAFE) rebounded some in the fourth quarter, but was unable to overcome all of the negative issues surrounding global markets and finished down significantly for the year with a meaningful amount of the underperformance due to the decline in the value of the Euro. Of note, many European bourses finished down more than 10% and once high-flying emerging markets came in for a rough landing as well with many losing 20% or more in 2011.

Illustrating that markets were particularly difficult to navigate profitably, hedge fund managers as measured by the Global Hedge Fund Index finished 2011 down nearly 9%. This index is representative of the overall composition of the hedge fund universe and includes all eligible hedge fund strategies. Just how poorly did the broad U.S. equity

market do? If you removed the 12 largest stocks from the S&P 500 (leaving you with 488 stocks), you would have realized a negative return for the year. As troubling as that statement sounds, if you had opted to avoid the U.S. equity market altogether by only investing in foreign equities, a negative double digit percentage loss was the likely result.

Fixed Income

A global economy barely able to avoid recession and a Federal Reserve committed to keeping interest rates low helped to create an environment that saw interest rates drift lower during the year. High quality U.S. bond investors were rewarded yet again in 2011 with the BarCap U.S. Govt./Credit Intermediate Index ahead 5.80% for the year. Unlike recent periods, the bond index outperformed nearly all managers last year. Although U.S. Treasuries performed the best despite losing their coveted AAA credit rating, municipal bonds ignored dire warnings earlier in the year by market pundits and went on to have a very impressive showing as well. As mortgage rates continue to hover near the historic lows set in December, we encourage you to contact your advisor if you have a mortgage that hasn't been looked at in over a year. You could be pleasantly surprised.

ECONOMIC UPDATE AND MARKET ENVIRONMENT:

No doubt the past year was dominated by negative news emanating from Europe. As aging welfare states and their inherent underfunded promissory obligations served to strain fiscal budgets during the economic slowdown, new cracks emerged in the European banking system.

TOTAL RETURN OF MAJOR INDICES					
INDEX	Q4 2011	YTD 2011	1 YR	ANNUALIZED	
				3 YR	5 YR
Intermediate Bonds <i>(BarCap Gov't/Credit Interm)</i>	0.84%	5.80%	5.80%	5.65%	5.88%
Intermediate Bonds <i>(BarCap Muni 1-10 Year Blend)</i>	2.39%	7.62%	7.62%	5.96%	5.37%
Large-Cap Stocks <i>(S&P 500)</i>	11.82%	2.11%	2.11%	14.11%	-0.25%
Small-Cap Stocks <i>(Russell 2000)</i>	15.47%	-4.18%	-4.18%	15.63%	-0.15%
Foreign Stocks <i>(MSCI EAFE)</i>	3.33%	-12.14%	-12.14%	7.65%	-4.72%

Source: Morningstar 12.31.11

Not surprisingly, political finger pointing ensued and leaders quickly formed a circular verbal firing squad. The ongoing discourse continues to test the continuity of the Euro Zone and the systemic nature of its problems will likely remain well past 2012. Of course our diversified approach entails the use of foreign markets, but we have continued to underweight our allocations outside of the U.S.

We hasten to point out the obvious fact that political finger pointing and budgetary problems were not in short supply on our soil. In addition, good paying new jobs and qualified homebuyers remained as scarce as wedding anniversary celebrations at the Kardashian household. While a new trend has not yet been established, there are signs that both housing and employment are stabilizing and even exhibiting signs of resuscitation. Granted, Europe, and even rumblings of a slowdown in China, could effectively push us into recession in 2012, but it appears unlikely we'll enter recession on our own accord. Consumer confidence closed the year at an eight month high (rather similar to a strong 2010 finish) due to the perception that job prospects are starting to brighten. That confidence helped to ring up a reasonably good Christmas sales season if you ignore the humbuggery associated with disappointing sales at Sears (also the owner of Kmart).

The housing bubble has presented itself as the largest elephant in the room for several years and no one yet has effectively found a way to "fix" the situation although many Band-Aids have been proffered. But due to its overall economic importance particularly with regard to job creation and consumer balance sheets, we feel compelled to watch the housing market closely and what we've found recently is quite interesting. Home sales have shown signs of life and are starting to rise. The inventory of previously owned homes listed for sale fell to a low not seen since May 2005, while new home inventories are at a 49 year low. If a sustainable modest housing upturn materializes in 2012, a huge IF, bond investors could easily become as nervous as a long tailed cat in a room full of rocking chairs because current interest rates seem to be forecasting no such moderation of the housing malaise. For that reason and a multitude of others, we remain diversified within our bond portfolios, with an eye on remaining flexible.

*Consumer confidence
closed the year at an
eight month high...*

The November 23rd deadline for the Super Committee to hammer out a budgetary deal expired with no apparent solution and the January 15th "trigger" date for \$1.2 trillion in spending cuts seems likely to be the next focal point for investors. The situation continues to provide uncertainty and has the potential for political gamesmanship that may negatively impact the credit rating of the Treasury. Consumers are also busy addressing their own budgetary problems. This is an important ingredient needed to establish a durable economic recovery. A couple of recent surveys by Principal Group and Fidelity both indicate that saving more and reducing debt are the top resolutions for 2012. While corporations have aggressively improved their balance sheets over the past few years, consumers can't make adjustments so quickly. We can't fire our kids or easily hire some attorneys to rework contracts with our lenders, so the pace of restructuring is a good bit slower, but progress is indeed being made. We just completed the 12th straight quarter of declining consumer debt which now stands at a level last seen in 2006. The number of credit card accounts open has fallen from a peak of 492 million in 2008 to 383 million and balances on those cards are now 20% below their 2008 high. In fact, household debt service as a percentage of disposable personal income is now at a 27 year low. All of these facts imply that consumers are reducing their debt burden one way or another (paying it off or defaulting).

OUR APPROACH

We continue to focus on owning high quality companies all over the globe. Firms that have a balance sheet that can support a dividend remain appealing to our fund managers. We continue to manage portfolios by underweighting both energy and small caps, two areas that performed quite poorly during the recent market decline. Although we have been underweight emerging market equities, which have also been hit harshly, they remain on our radar screen if attractive risk/reward opportunities present themselves. Not surprisingly, we don't believe higher-risk equity or bond investments in this environment will be rewarded with outperformance. Therefore, our bond portfolios have been creeping towards higher quality credits. Risk taking may look particularly appealing during weeks where the market averages soar several percentage points, but we remain pragmatic and not compelled to capture what may prove to be fleeting returns.

THINGS WE DID RIGHT

We favored large U.S. companies with strong balance sheets as the most sensible way to approach a year which seemed to carry above average risks. Portfolio managers we selected that used this approach performed particularly well.

We moved out of our small commodity related position as the economy appeared to us to be headed for a slower growth rate than consensus expectations.

We improved the credit quality of our bond portfolios as the year unfolded with the expectation that slower second half growth would reward quality. In our most conservative portfolios we held onto the Vanguard Intermediate-Term Treasury fund – which significantly outperformed the benchmark.

THINGS WE COULD HAVE DONE BETTER

We correctly anticipated that the U.S. AAA credit rating was in jeopardy. One of our bond managers, Bill Gross of PIMCO, also correctly anticipated the credit rating downgrade and coupled that expectation with his view that the end of QE 2 would lead to higher interest rates. But interest rates actually fell as the U.S. bond market looked healthy on a relative basis after the Euro Zone troubles began to grow in

mid-2011. We have been in direct contact with PIMCO and believe the fund is better positioned currently.

LOOKING AHEAD

What should you expect from us in 2012? Be assured we will continue to closely monitor market conditions and our portfolio managers. We will pursue good risk adjusted returns as they become available to us, but our time-tested discipline does not allow us to speculate on a few short-term risky bets while crossing our fingers. Make no mistake, equity market conditions in 2011 were difficult, yet some of our conservative managers bested the benchmark by a wide margin. We hope to build upon these successes as 2012 unfolds. Not unlike 2011, the current year may well hold numerous opportunities and risks. In the near term, we continue to favor lower risk strategies in the equity portions of our portfolios with a bias towards large dividend paying companies. Although valuations appear historically modest, risks appear to be above average. On the fixed income side, we continue to believe that a strategy focused on intermediate term, higher quality bonds presents the best risk/reward profile for our clients. As always, we'll be flexible in our outlook as data becomes available to support a change in our view. Despite our expectation that weak economic news, assurances by the Federal Reserve, and political discord will keep interest rates suppressed, we cannot rule out bond market surprises and therefore remain positioned with flexible and diversified bond managers.

Finally, despite our reflexive skepticism towards politicians, it appears they are likely to finalize rules that bar insider trading by themselves and their staff. Hard to believe they were able to legally use insider information to enrich themselves, but correcting that wrong appears to be all but complete. We hope this small gesture is a sign that things are finally changing in Washington.

As we close out 2011, we again want to say thank you for the confidence you've placed in us. We appreciate the opportunity to be your financial advisor and we don't take the trust you've placed in us lightly. As always, we welcome the opportunity to have additional conversations with you about your specific situation.



Wisconsin – Appleton, Brookfield, Burlington, Chippewa Falls, DePere, Fort Atkinson, Franklin, Green Bay, Hayward, Howard, Janesville, Kenosha, Kohler, Madison, Milwaukee, Mukwonago, Racine, Rice Lake, Ripon, Spooner, Waukesha, Wausau, Whitefish Bay

Arizona – Phoenix and Scottsdale