

Dear Clients, Friends and Family,

Perhaps you managed some or all your investments in 2011 following the rules of good, "proven" portfolio management, such as diversification; investments in a variety of asset classes, including global assets, not just local U.S. choices; and hedge funds that have little or no correlation to the market. If you followed all those rules you were probably disappointed with a negative return for the year.



- U.S. stocks, as evidenced by the Standard & Poor's 500 index, were one of the better performing asset classes. The index returned flat for the year while small- and mid-capitalization stocks ended in negative territory.
- Europe and Japan stock markets declined by double digits and emerging markets were even worse.
- Hedge funds fell a dismal -3.2 percent.
- The place to avoid in 2011 was 30-year Treasury's because of a perceived "bubble," but holders earned a 34 percent return when the yield of their bond went from 4.42 percent to 2.89 percent by 2011's end.

It is important to remember that out-of-favor allocations may take more time to come to fruition and provide you with returns you want. If the fundamentals of your investment still continue to suggest a good case for growth, then do not give up. Historically, most investments eventually revert to their true intrinsic values.

So where do you put your money in 2012?

Here is my take on the market: It is virtually impossible to predict returns over the short term, however, over the next several years, the stock market has a much better chance of beating bonds and inflation. All the so-called experts (economists from a variety of organizations and Chief Investment Officers of several major fund organizations) are predicting 5 to 7 percent returns from stocks. That is not particularly bullish compared with historical returns. However, 5 to 7 percent on stocks appears far more attractive than a 2 percent yield on "safe" bonds.



Another compelling case for stocks: When you look back over 2000 through 2009, the return on the S&P 500 including dividends averaged a negative 0.9 percent per year. At the end of 2011, the S&P 500 traded at just under 13 times estimated earnings. Compare that with its 17.5 historical average price-to-earnings ratio. (Source; S&P Indices-data& analysis)

Jeremy Siegel, a Wharton School finance professor, feels the "best case for bonds over the next couple of decades is a return of `zero' after inflation--and more likely, a negative outcome." Of course, he needs to be consistent with the book he just wrote, "Stocks for the Long Run."

For 2012, I like:

- U.S. and multinational stocks with strong cash flows. I am concerned that market participants have bid up dividend-paying companies ; the FTSE High Dividend Yield Index 10.65 percent in 2011, so I would rather invest in less of a dividend-paying company, but one with a global presence, name brand and strong cash flow.
- Emerging markets offer the best long-term growth prospects due to a variety of factors, including stronger balance sheets than the U.S. government (low debt is good for economic growth), positive demographics (younger populations tend to influence economic growth), and their governments' ability to rapidly implement economic changes (such as China). Finally, emerging markets stocks were among the worst performers in 2011 resulting in a valuation that is even more compelling.
- Good inflation hedges and diversifiers should include commodities. I especially like investing in global oil companies, but suggest waiting until the Iran crisis settles down, as oil stocks have had a fast run-up in value lately. Clearly, commodities face more scarcity and it is a sector that can be quite volatile.
- For fixed income, I like short-term, high-quality bonds, TIPS (Treasury inflation-protected securities, a type of Treasury bond) and emerging-market bonds, to name a few.

After listening and reading the economic outlook from a multitude of economists, most sound fairly optimistic for the US and global markets for 2012. However, many economists work for investment and brokerage firms, so I do consider the source.

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