



CONSUMER
SPENDING

TIMING

POLITICS

GLOBAL
MARKETS

WALL
STREET

**Chester County Economic
Development Council
12/16/2011**

Presented by

Patricia C. Brennan CFP®, CFS
Key Financial, Inc.
1560 McDaniel Drive
West Chester, PA 19380
Ph: 610-429-9050
Email: pbrennan@keyfinancialinc.com



Securities and Advisory Services offered through Royal Alliance Associates, Inc., Member [FINRA/SIPC](#) and a registered investment advisor. Advisory services offered through Key Financial, Inc. A Registered Investment Advisor, not affiliated with Royal Alliance Associates, Inc. The views expressed are not necessarily the views of Royal Alliance Associates, Inc.

Where Are We So Far in 2011?

	YTD as of 12-13-11
S&P 500	-1.7
NASDAQ	-1.5
U.S. Corp Bond	+7.0
MSCI EAFE	-15.29
Gold	+17.11

Source: Wall Street Journal 12-13-11

Indexes are unmanaged and investors are not able to invest directly into any index.



Financial Markets

4 Big Stories for 2011:



Greek Bailout & European *Mess*

Global Debt

U.S. Deficit Debate

Housing, Unemployment, Consumer Confidence



Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. It is our goal to help investors by identifying changing market conditions. However, investors should be aware that no investment advisor can accurately predict all of the changes that may occur in the market. The information here was obtained from sources believed to be reliable; however, it cannot be guaranteed. Therefore, the information presented here should only be relied upon when coordinated with individual professional advice.

“Cooking” in Greece



If your budget resembled the U.S. government

Figures adjusted to various income levels.

Tax Revenue/Income	\$2,162,288,000,000.00	\$50,221.00	\$100,000.00	\$250,000.00	\$500,000.00
Current Spending	\$3,453,856,000,000.00	\$80,218.78	\$159,731.54	\$399,328.86	\$798,657.72
Annual Deficit	\$1,291,568,000,000.00	\$29,997.78	\$59,731.54	\$149,328.86	\$298,657.72
Accumulated Debt	\$14,025,215,218,708.50	\$325,805.75	\$648,666.20	\$1,621,595.38	\$3,243,190.77

Methodology

Due to the sheer size of the numbers, the U.S. federal budget was scaled down by dividing the U.S. median household income level for 2009 (the most recent figure available) by the actual 2010 Federal Tax Revenue computing a rate of 0.000002323%. This factor was then applied to the actual Current Federal spending, deficit, and accumulated debt for 2010. The same concept was applied to the three alternative hypothetical household income levels.

¹United States Government numbers taken from the Congressional Budget Office summary 'Budget and Economic Outlook: An Update' Table 1, page 3. Actual numbers are calculated as a percentage of the GDP for 2010.

²Accumulated debt taken from TreasuryDirect.gov for December 31st, 2010.

³United States Median Household Income level taken from U.S. Census Bureau, American Community Survey, 2009.

MFS Fund Distributors, Inc., 500 Boylston Street, Boston, MA 02116

Housing

- Pending home Sales Up 10.4% (NAR 11/30/11)
- New Home Sales up 1.3% in October
(Commerce Department 12/1/11)
- But... Prices Fell .5% (CNBC 12/3/11)

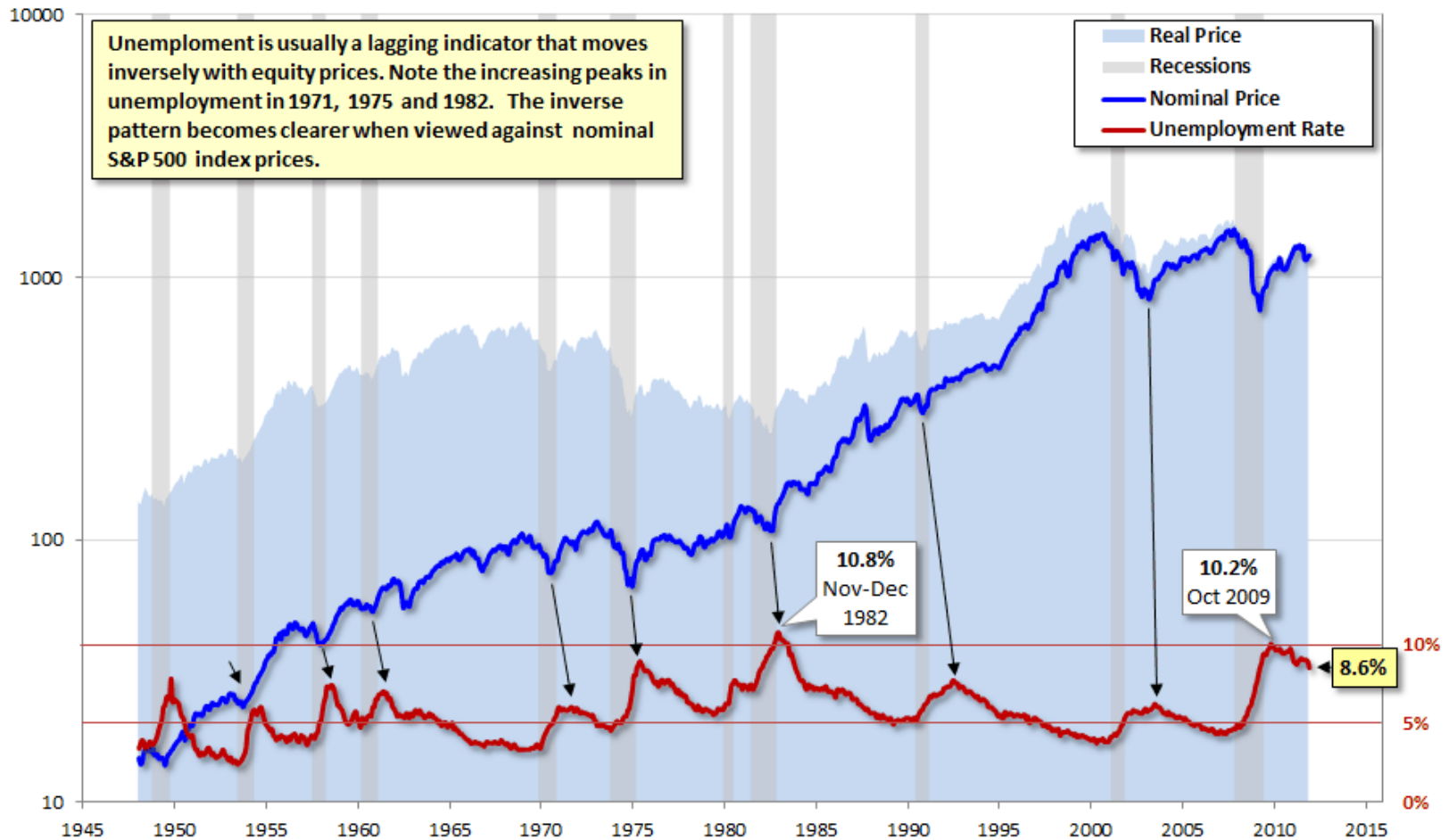
S&P Composite and Unemployment

dshort.com

December 2011

Data through November

Monthly Average Nominal Price and Real Price
with Monthly Unemployment



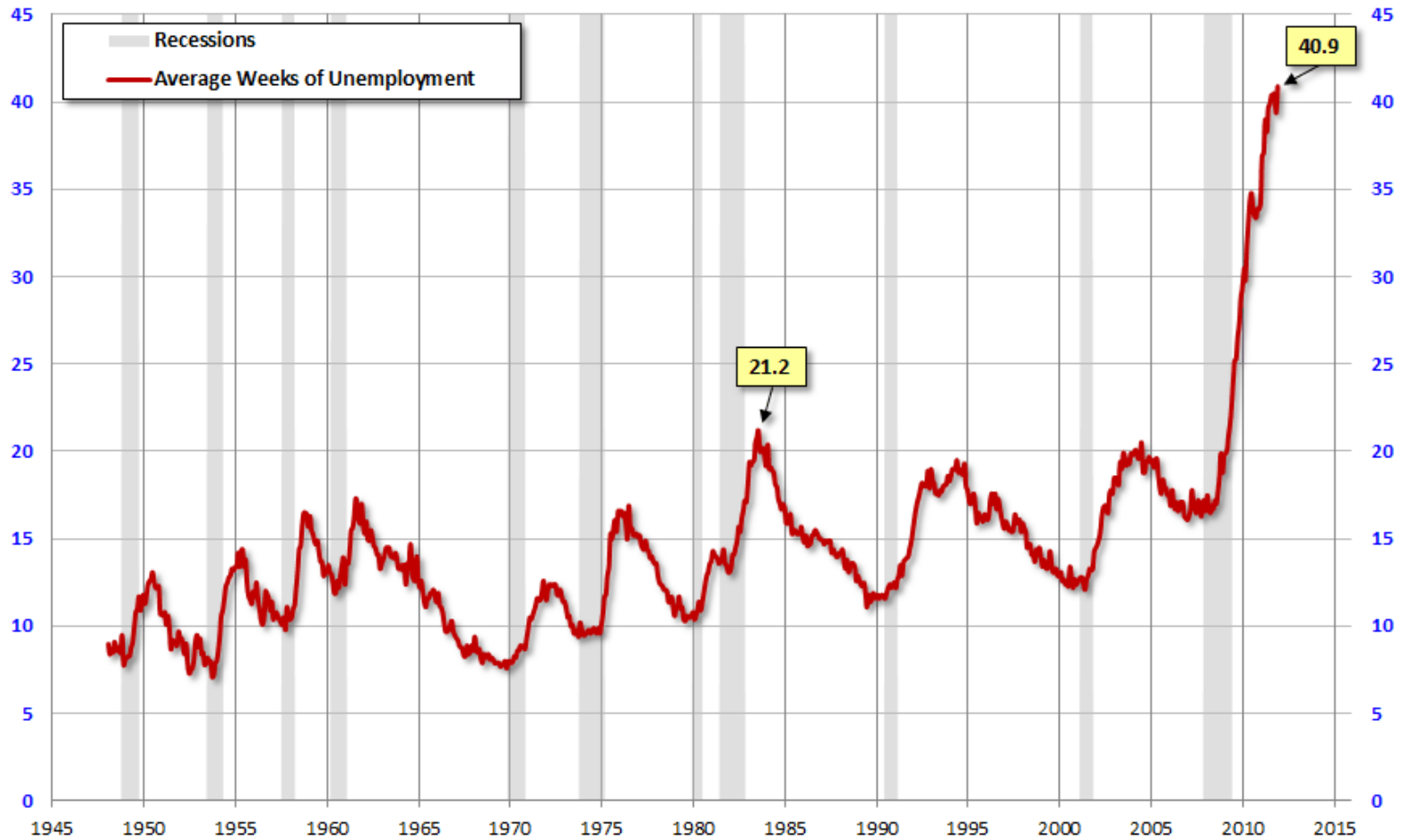
Average (Mean) Duration of Unemployment

measured in weeks

dshort.com

December 2011

Data through November

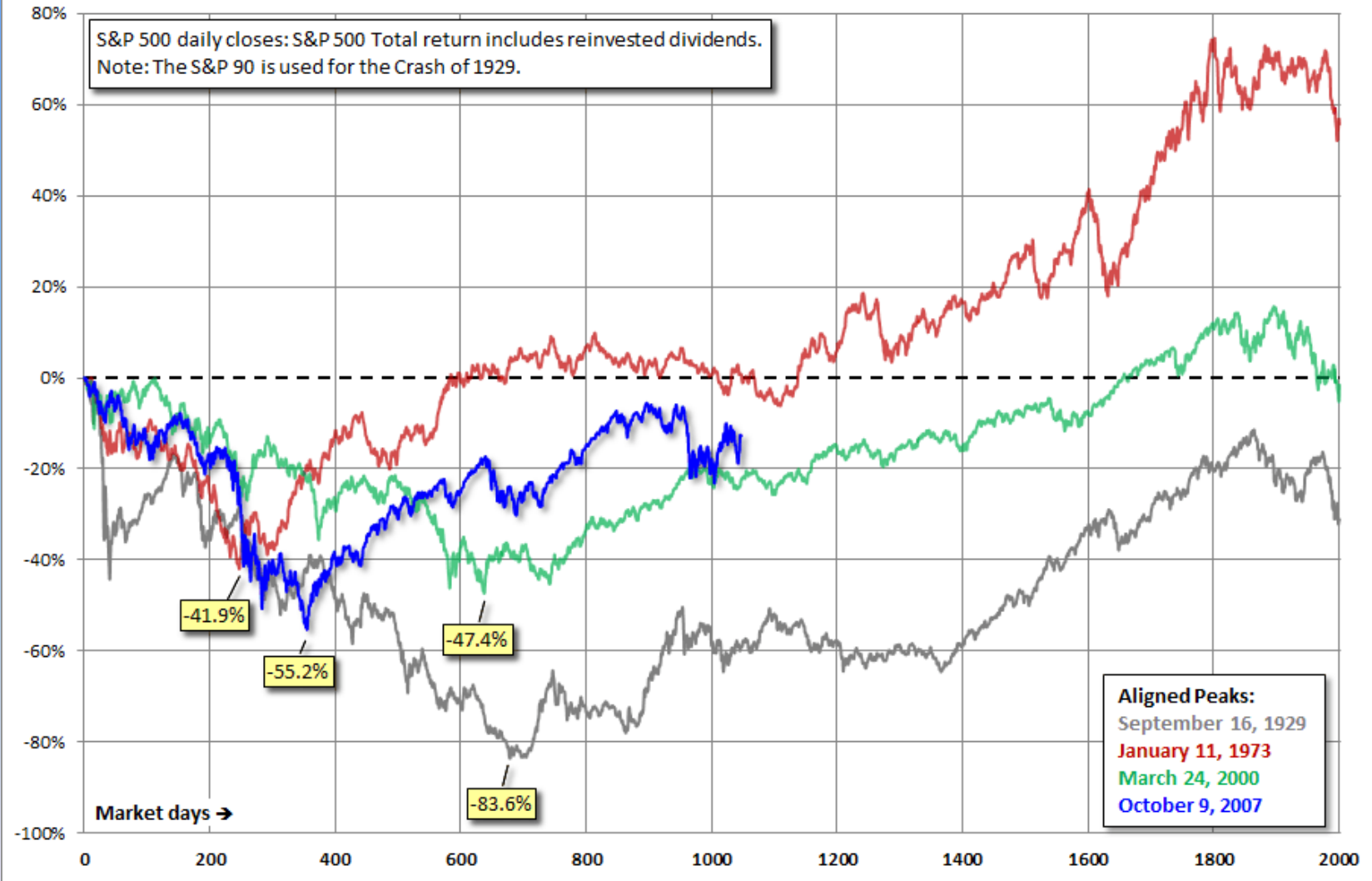


Four Bad Bears Total Returns

dshort.com

12/2/2011

— Crash of 1929 — 1973 Oil Embargo — 2000 Tech Bubble — 2007 Financial Crisis

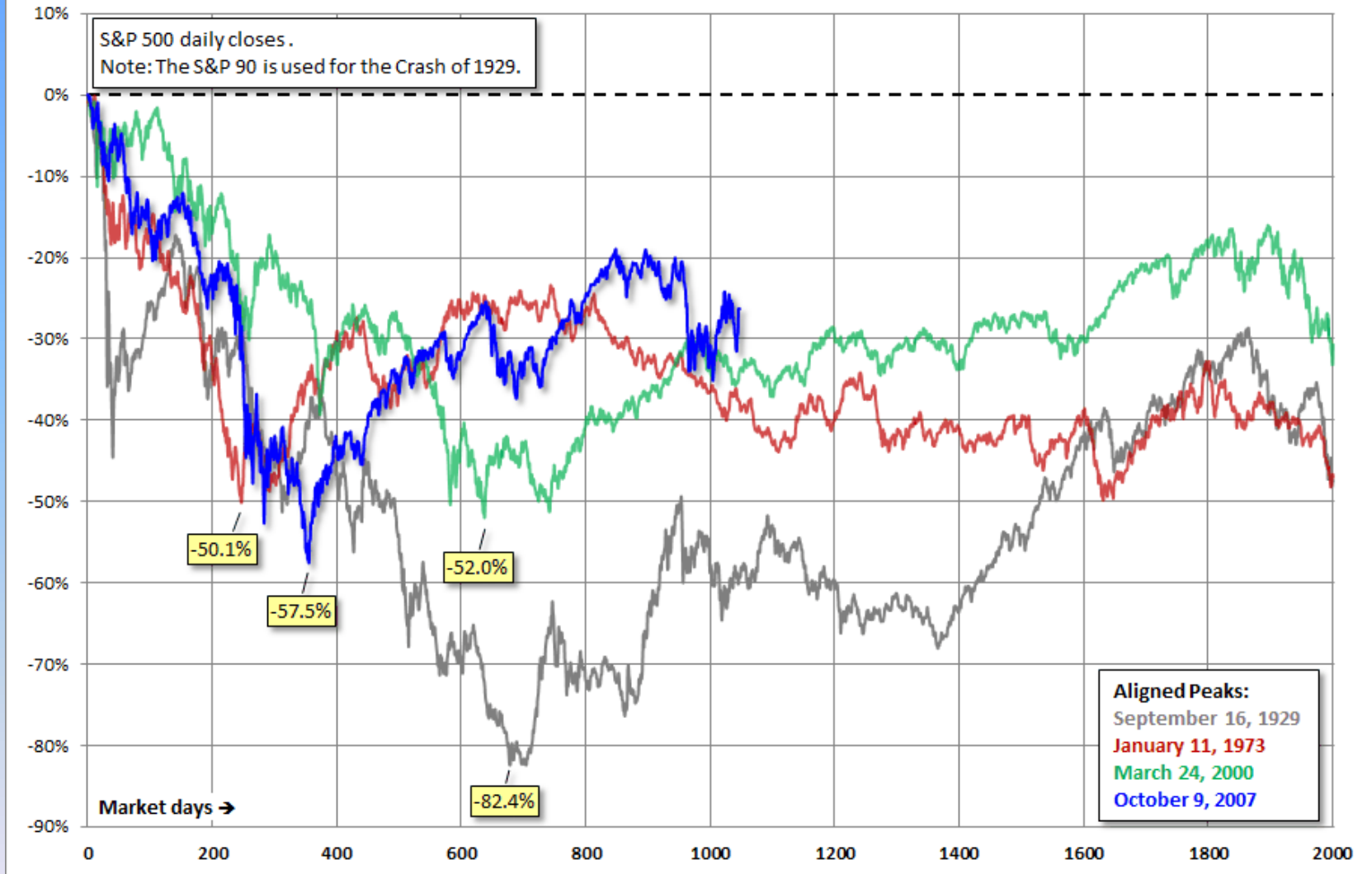


Four Bad Bears Adjusted for Inflation

dshort.com

12/2/2011

— Crash of 1929 — 1973 Oil Embargo — 2000 Tech Bubble — 2007 Financial Crisis



Real Returns of the 4 Bad Bears

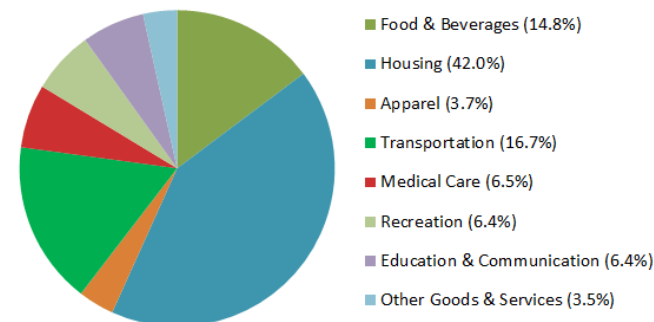
Market after 1047 Days	Index Price		Total Return	
	Nominal	Real	Nominal	Real
Crash of 1929	-68.9%	-59.2%	-59.0%	-46.3%
1973 Oil Embargo	-15.4%	-37.9%	0.5%	-26.2%
2000 Tech bubble	-27.0%	-33.9%	-22.3%	-29.7%
2007 Financial Crisis	-20.5%	-26.3%	-12.7%	-19.1%

Inflation adjustment based on the Consumer Price Index

Inflation

Consumer Price Index Components

dshort.com



Eight Components of CPI: Year-Over-Year Rate of Change

Name and Weight	Jun 2011	Jul 2011	Aug 2011	Sep 2011	Oct 2011
Food & Beverage (14.8%)	3.59%	4.00%	4.37%	4.47%	4.47%
Housing (42%)	1.28%	1.45%	1.63%	1.82%	1.87%
Apparel (3.7%)	1.91%	3.06%	4.18%	4.18%	4.19%
Transportation (16.7%)	12.58%	11.98%	11.68%	11.84%	9.18%
Medical Care (6.5%)	2.92%	3.20%	3.19%	2.81%	3.12%
Recreation (6.4%)	-0.13%	-0.17%	0.06%	0.28%	0.25%
Education & Communication (6.4%)	1.01%	0.98%	1.09%	1.12%	1.37%
Other Goods & Services (3.5%)	1.38%	0.85%	0.88%	1.29%	1.66%
Energy	20.08%	18.97%	18.36%	19.27%	14.20%
Headline CPI	3.56%	3.63%	3.77%	3.87%	3.53%
Core CPI	1.64%	1.77%	1.95%	1.97%	2.10%

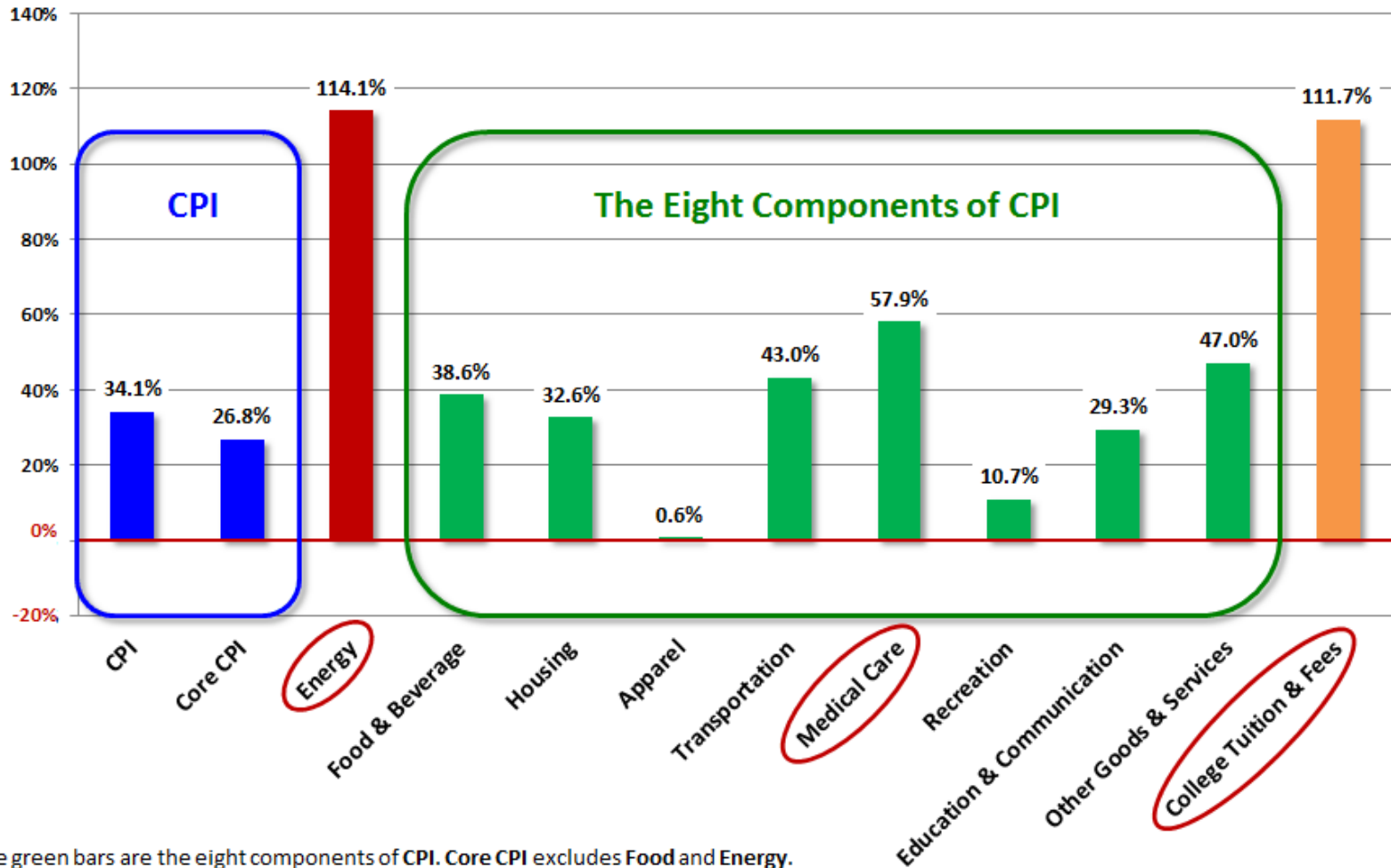
Note: Energy is treated as sub-components of Transportation & Housing. It is weighted at 8.6% of CPI, with transportation fuels at slightly over half the total at 4.5%.



Figures quoted are for illustrative purposes only and are not necessarily indicative of past or future results of any specific investment. They do not include consideration of the time value of money, inflation, fluctuation in principal or income taxes. Past history is no guarantee of what you can expect in the future.

Inflation Since 2000

Inside the Consumer Price Index



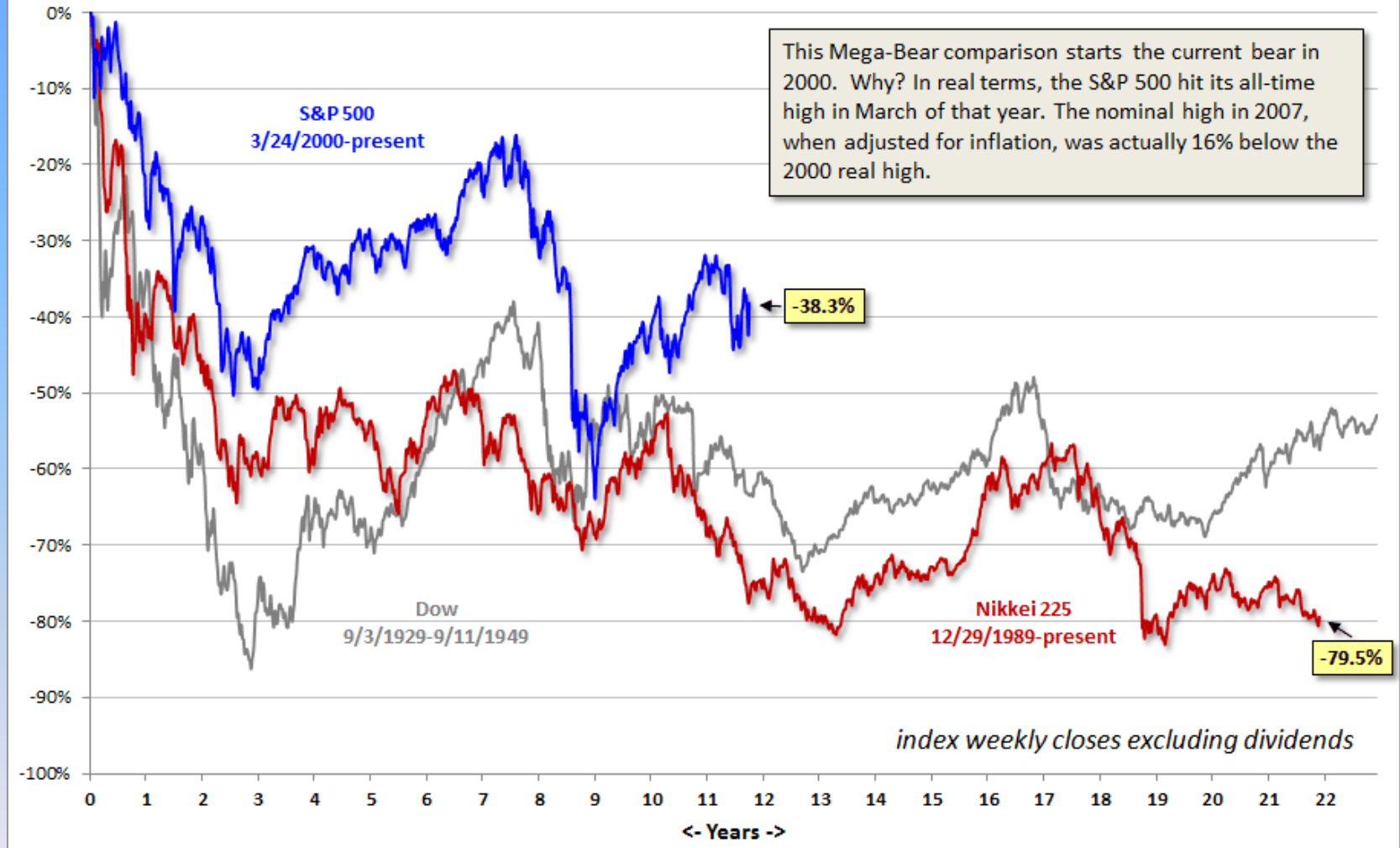
The green bars are the eight components of CPI. Core CPI excludes Food and Energy. Energy is a major subcomponent of Transportation and a minor subcomponent of Housing. College Tuition & Fees is a subcomponent of Education & Communication.

The "Real" (Inflation-Adjusted) Mega-Bears

The Dow Crash of 1929 and Great Depression

The Nikkei 225 Collapse in 1989

and Today's S&P 500 Since the 2000 Peak



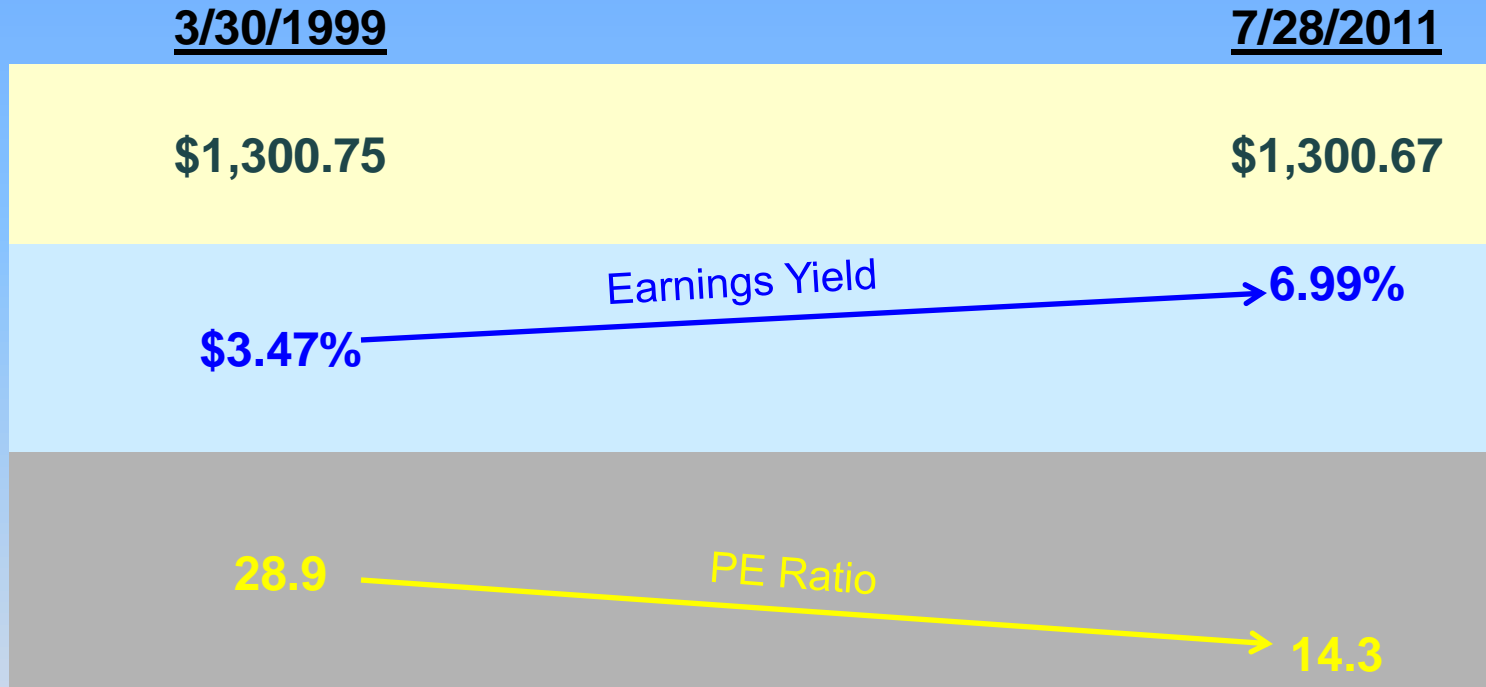


Bulls Say:

(The optimists' view of the stock market going forward)

1. Low bond yields – Make stocks appear more attractive by comparison
2. Steep U.S. yield curve – A prelude to stronger growth
3. Strong corporate earnings – Many expect S&P 500 EPS at \$100 this year
4. U.S. economic “cleansing” – Four years into it, banking system now recapitalized
5. Housing market is “cheap” – Most affordable in 60 years
6. Consumers living within their means – Past prosperity periods started like this

2 Visits to S&P 500 at \$1,300



Source: Standard and Poors and Fact Set
Data based on 12 month yearly earnings per share

Between these 2 dates:

3/30/1999

7/28/2011

1,300.75 —————> 1,300.67

- The Earnings Yield *Doubled*
- The PE Ratio *Halved*

Stocks vs. Bonds



Earnings Estimate for S&P 500 = \$98

At \$1,250 on S&P500 - Earnings yield = 8%

The 10 year treasury Bond yields 2%

Earnings yield on stocks is four times the yield on a 10 year Bond

Source: Nick Murray Interactive 9/30/2011

Figures quoted are for illustrative purposes only and are not necessarily indicative of past or future results of any specific investment. They do not include consideration of the time value of money, inflation, fluctuation in principal or income taxes. Past history is no guarantee of what you can expect in the future. In general, the bond market is volatile as prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Bears Say:

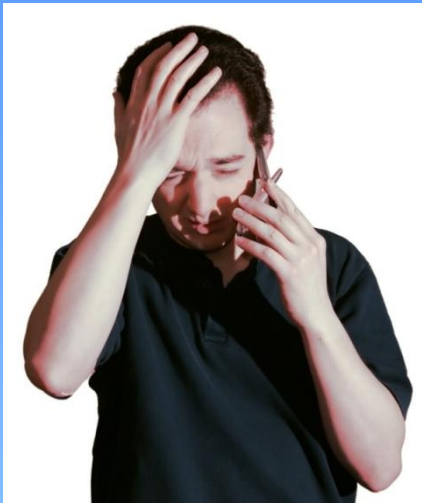
Hogwash!



Bears Say:

(What could cause a large drop in the stock market by middle of 2012)

1. Recovery Is Uneven – Some regions of America are almost economically dead
2. Underwater mortgages – More than a quarter of US mortgages are underwater
3. Inflation – Can't afford higher food, clothing prices when incomes are not moving up
4. Companies hoarding cash – Dividend increases help shareholders, but no one else
5. Everyone's shedding their workforce – Companies not hiring + government layoffs
6. China's slowing economy – Many American firms need China sales
7. Greece is tanking – Will go under and take many other small EU nations with it (A series of defaults among the nations may damage the bank and credit system more than the collapse of Lehman, decimate European banks)
8. Serious Macroeconomic issues in Europe and U.S.



Born in 1957????

You had to live with:

1. Average intra year decline was 14.1% .
2. Declines of 10% or more occurred once per year.
3. Declines of 15% or more occurred once every 3 years.
4. Declines of 20% or more occurred once every 5 years.
5. Average peak to trough decline was 30%.

Surprise = PANIC

Source: Nick Murray Interactive 9/30/11



Figures quoted are for illustrative purposes only and are not necessarily indicative of past or future results of any specific investment. They do not include consideration of the time value of money, inflation, fluctuation in principal or income taxes. Past history is no guarantee of what you can expect in the future.

S&P 500: 1957 - 2011

Price	18 to 1,257
Years Increased	46 of 65 (71%)
Earnings	94¢ to 77.35
Dividends	67¢ to 22.73
CPI	18.2 to 219.2

Buying on the Dips???

	# Occurrences	S&P 500 Price/Avg. Pr	Annual Cost
Lump Sum 9/24/2001	1	77.22	-
2% Daily Dip	137	82.82	80 BP/yr (-.8%)
5% Daily Dip	13	78.39	10 BP/yr (-.10%)

Source: WSJ 9/24/11 Jason Zweig "Why Buying on the Dips isn't all it's cracked up to be".
William Bernstein - Efficient Advisors

Figures quoted are for illustrative purposes only and are not necessarily indicative of past or future results of any specific investment. They do not include consideration of the time value of money, inflation, fluctuation in principal or income taxes. Past history is no guarantee of what you can expect in the future.

Expect the Rain - Be Prepared



Rebalancing



Bull Market in Bonds



30 years

Long Term Government Bond 11.5%

S&P 500 10.8%

Source: James Bianco, Bianco Research, Chicago Ill., Nick Murray Interactive 9/30/11



Figures quoted are for illustrative purposes only and are not necessarily indicative of past or future results of any specific investment. They do not include consideration of the time value of money, inflation, fluctuation in principal or income taxes. Past history is no guarantee of what you can expect in the future.



The International Story

Dividends



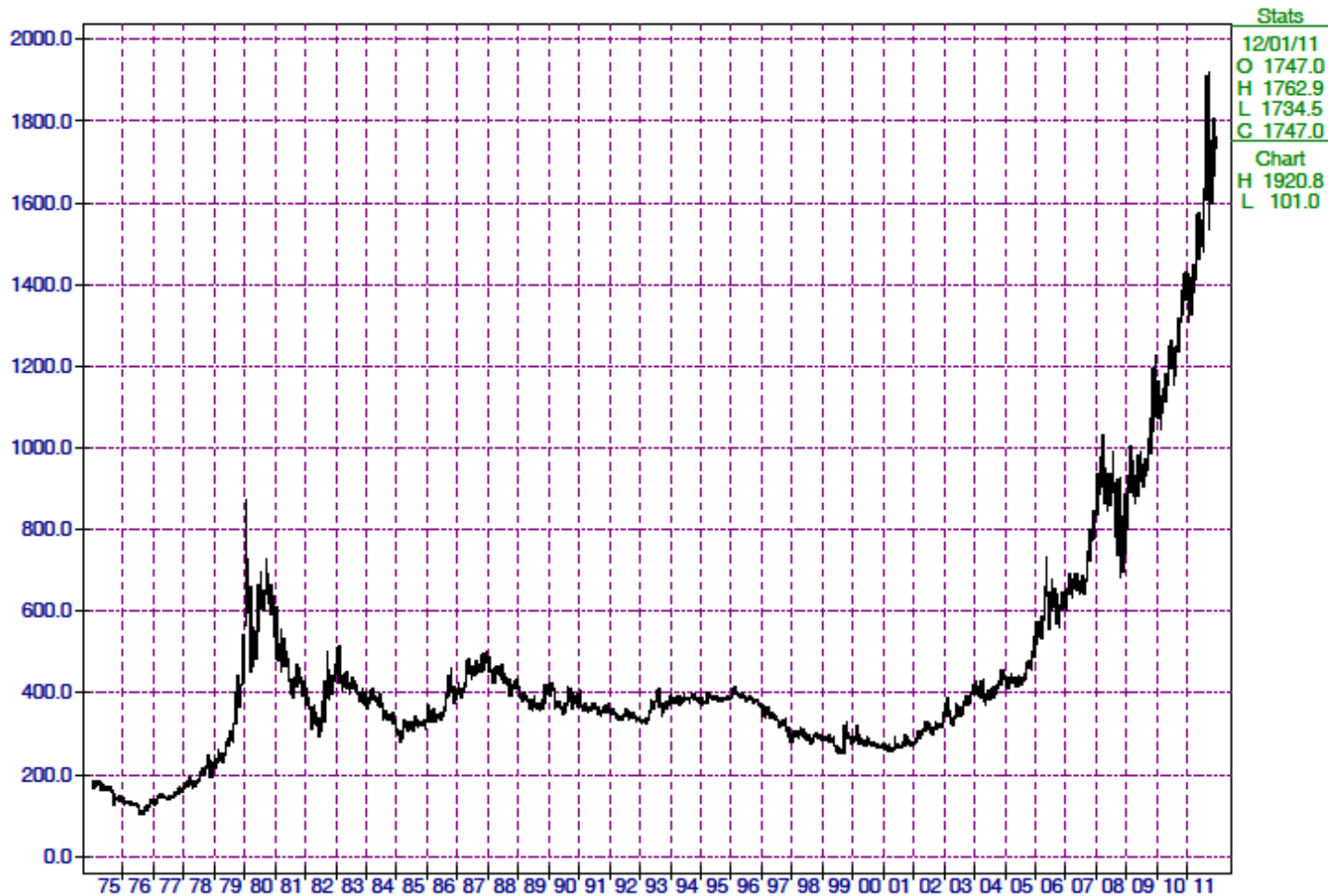
Alternatives

1. Real Estate?

2. Absolute Return?

3. Gold?

Monthly Nearby Gold(CMX)



Stats	
12/01/11	O 1747.0
	H 1762.9
	L 1734.5
	C 1747.0
Chart	
	H 1920.8
	L 101.0

Figures quoted are for illustrative purposes only and are not necessarily indicative of past or future results of any specific investment. They do not include consideration of the time value of money, inflation, fluctuation in principal or income taxes. Past history is no guarantee of what you can expect in the future.

Action Items

1. Understand your liquidity needs
2. Do NOT chase yield
3. Catch-up for Retirement - Max Out pretax 401k (\$17,000 for 2012 plus \$5,500 catch-up); if possible, do after tax up to \$49,000 (Plus the catch up) per year total....then convert after tax to a Roth. (Age 59 and 1/2 inservice withdrawal ?)
4. Manage your Tax Liability . (Accelerate income???)
5. Choose Wisely: Transparency/Cost.
6. Review your Will and Beneficiary Designations (Uncle Ronnie).



Please consult your personal financial/tax advisor before implementing any recommendations.

Thank You for Your Time and Attention



Key Financial, Inc.
Patricia C. Brennan CFP®, CFS
1560 McDaniel Dr.
West Chester, PA 19380
Ph. 610-429-9050
Fax. 610-429-9279

E-Mail: pbrennan@keyfinancialinc.com

Securities and Advisory Services Offered through Royal Alliance Associates, Inc.
Member FINRA/SIPC. Additional advisory services offered through Key Financial, Inc.
A Registered Investment Advisor who is not affiliated with Royal Alliance.