

A Difficult Year

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Q4 2011

By all accounts, 2011 was a challenging year, financially as well as emotionally: the Japanese tsunami and near nuclear meltdown, U.S. debt ceiling debate as well as the subsequent credit-rating downgrade, and the uncertainty of the outcome of Arab Spring. The strong first half was ultimately derailed by the Greek debt crisis, putting the other European countries' ability to refinance their own debt in question. As the long-term viability of the euro, the second largest currency in the world, was called into question, global capital flowed to the only remaining currency that could handle the volume: the U.S. dollar. U.S. Treasuries, which were thought to be overvalued a year ago, continued to post significant gains, much to the surprise of the majority of the investment community. At the final tally, the U.S. markets closed close to where they started in January, but the MSCI EAFE (Europe and Far East) was a different story, closing down -12.14%. Global portfolios also suffered due to the inclusion of the Eurozone and the almost-certain recession to follow.

Where does that leave us? My sense is that investors who have been on the sidelines waiting for signs of an economic rebound and collecting next to nothing on CDs and money market funds have grown impatient. Real returns (investment return minus inflation) are negative, not exactly a viable long-term plan, especially for those living on a fixed income. We are witnessing a move from cash alternatives to dividend-paying stocks, municipal bonds, and anything that provides cash flow. Volatility may just be part of the bargain for those seeking equity alternatives. Keep in mind that while we face an overleveraged government debt structure, corporate America is posting record profits. Economic sanity has a way of winning out long term, and we shouldn't ignore the low stock market valuations and high corporate earnings.

I would also like to encourage you to visit our newly updated website, www.finlay-group.com. Not only can you log on to your account from this site, but it offers a number of tools as well as timely commentary on a variety of investing-related subjects.

From all of us at The Finlay Group, we wish you a happy, healthy, and prosperous 2012.

CAR #0522-01233

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