Issue 39 – January 23rd, 2012

Prosperity Fundamental Value Indicator

This week's PFVI – 57.57 ***; Last week's PFVI –*** 56.60

PROTECT ——— V ——— **ADVANCE**

In This Issue:

- Jobless Claims
- VIX
- ISM Index

New Developments

Since our last issue, the US data has continued to improve, with jobless claims, the VIX Index and the ISM Index leading the way.

Jobless claims continued to drop, falling to the lowest level since the 2008 recession began. The downward trend has been reflected in the government unemployment reports with the unemployment rate dropping from 9.1% to 8.5% over the course of 2011.

The VIX Index, which measures expected volatility, has also been dropping, down nearly 60% since September. This is a welcome break for financial companies, which employ hedging techniques to reduce risk. The lower the VIX Index, the cheaper the hedging costs.

Advisor Perspective

A deeper look at the ISM Index reading for December shows several encouraging signs for growth. Production, new orders and employment readings all increased in the latest month, showing the US manufacturing sector is continuing to bounce back.

It is unlikely anyone thought manufacturing could be a growth engine following decades of outsourcing to avoid rising wages and input costs domestically. Now those issues are starting to rise among emerging economies and companies are bringing manufacturing back to the US where workers are still more expensive, but also more efficient.

SELECTED DATA:

UMich Sentiment – 74

ISM Index – 53.9

Capacity Utilization – 77.8

Carloads – 283,645

Claims – 378.250

P/E Ratio – 21.76

VIX Index – 18.28

Dorsey Wright – 4.9

10/2 Treasury Spread – 1.79

Cap Rate of P/E and 10yr Treasury – 2.55

Advisor Sentiment - 6.24

10955 Lowell, Suite 900
Overland Park, Kansas 66210
Phone: 913.451.4501
FAX: 913.451.2677
www.prosperityworks.com

Prosperity Advisory Group Analysts:

Paul Ewing, CFP®, William Easley, CFP® ChFC, Angela Brill, CFP®, Brian Brewer, Joel Morrison, David Martin

Methodology
The Prosperity Fundamental Value Indicator (PFVI) is used to communicate to our clients where we stand on the economy and the stock market. It is based on a 0 to 100 scale and is a quick way to show our clients whether we are in "advance" mode or "protect" mode. In advance mode, we are favoring riskier assets for a client's portfolio (stocks, high yield bonds, etc.) and when we are in protect mode we favor less volatile assets for the portfolios (bonds, managed futures, etc.). Each holding we select fits into the client's overall risk profile, but we overweight and underweight certain assets depending on if we are in advance or protect mode.

The PFVI helps us communicate our advance or protect status by having a value, calculated weekly, from 0 to 100. Above 50 is "advance" and below 50 is "protect". The PFVI is made up of nine data points, five advisor sentiment scores, and one technical score, each of which is listed below. Each component is a score from 0-10 based on historical ranges, ranges for all data available in the St. Louis Federal Reserve Data collection found online at http://research.stlouisfed.org/fred2/. The data value is then given a weighting and contributes to the overall value of the PFVI. The components are as follows, with weighting in parenthesis:[1]

Data Points:
University of Michigan Sentiment (5%)
Trailing normalized P/E ratio of the S&P 500 (5%)
ISM Index (5%)
Capacity utilization (5%)
4 week moving average for initial jobless claims (5%)
VIX Index (5%)
Ted Spread – spread between 10yr Treasury yield and the 2yr Treasury yield (5%)
Railcar weekly carloads (5%)
Cap rate of P/E v. 10yr Treasury Yield (10%)

Technical Data:
Dorsey Wright Technical All Stock Index (10%)

Advisor Scores:[2]
Paul Ewing sentiment (20%)
William Easley sentiment (8%)
Angela Brill (4%)
Joel Morrison (4%)
Brian Brewer (4%)

(1)The process of weighting takes the value of the data point, converts it to a 0-10 value based on historical range described above, and multiplied by its percentage weighting. For example if a data point has a historical range of 40 to 60, a score of 52 would receive a value of 6. This value is then multiplied by 5% to give a value on 0.30. This data point would contribute 0.30 to the total value of the PFVi for that week.

(2)Advisor sentiment scores are calculated on a 0-10 scale with 0 meaning the advisor thinks the market will be substantially lower in 12 months, 5 meaning the advisor think the market will be flat 12 months from that date and 10 meaning the advisor thinks the market will be substantially higher in 12 months.

Disclosures
Investors cannot directly invest in indices. Past performance is not indicative of future results. Therefore, no current or prospective client should assume future performance of any specific investment, investment strategy or product will be profitable or equal the corresponding PFVI (Prosperity Fundamental Value Indicator). Different investments involve varying degrees of risk and there can be no assurance any investment will either be suitable or profitable for a client or prospective client portfolio.

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