

JAN 2012

# A Growing Sense of Optimism

I'd rather not dwell on the relentless barrage of negative headlines and market events of 2011. It was a challenging year indeed, as the markets whip-sawed us until we couldn't see straight. We've all enjoyed as much of the European Debt Crisis as we can stand, and most of us are bone weary of the D.C. Circus as elephants, donkeys and pigs parade around the stage. With that being said, the European Union has probably turned a critical corner and may no longer pose a crippling threat to the global financial system. Moreover, there are compelling signs that the U.S. economy is beginning to recover and may actually be on the verge of a breakthrough. My personal opinion is that 2012 will mark the fragile beginning of a new growth cycle.

What's changed? First, let's disregard those pundits who suggest a positive market in 2012 because it is an election year. The elections do not drive the market; the market drives the elections. (Please Mr. and Mrs. Pundit, remember that 2008 was also an election year!) Second, the E.U. leadership has presented substantive proposals to help blunt the impact of the Debt Crisis and to develop platforms for long term recovery. As tortuous and fragmented as this process has been, and as problematic as the solutions will surely be, at least there is now agreement as to how deadly serious these issues really are. (Until the late fall, Berlusconi was still denying that Italy even had serious financial problems!) It may take years for the questions of financial austerity and political autonomy to be resolved, but there seems to be a growing acceptance that these issues will probably not drag the global economy into another 2008 debacle.

Third, as tentative as the numbers are, the U.S. economy is turning. Unemployment in the U.S. is gradually decreasing and our manufacturing numbers are becoming more positive. Domestic auto sales are up, and Toyota, Mercedes, and Volkswagen are significantly increasing their U.S. manufacturing facilities in Mississippi, Alabama and Tennessee. Real estate may be approaching the bottom, and residential construction is beginning to recover in several regions of the country. Meanwhile, retail sales are strengthening.

What about the emerging markets? With the U.S. and European Union economies accounting for about 45% of the world's GDP (total of all goods and services), the emerging markets plunged out of fear that the European Union's Debt Crisis would drag the U.S. and the rest of the world into another recession. One of the most important lessons from 2011 was how quickly and dramatically entire markets turned negative. While the U.S. markets dropped by more than 15% from July 21 to Aug. 10, India, Russia, and Latin America dropped by 25/30%. My personal opinion is that these markets are nearing a low point, and as the E.U. begins to stabilize, the BRICS will begin to show significant market growth again.

A recent article in *The Economist* compared China's continuing economic growth to our own. The article stated that in 2000, U.S. imports were approximately six times greater than China's imports, and that our GDP was roughly eight times greater. By 2014, economists predict that China will have become the world's largest importer, and will be the world's largest economy (measured by GDP) by 2018. Maybe we should begin to re-think the issue of "lost manufacturing jobs" and consider that China is developing into a huge market for our own goods and services. As China becomes the world's dominant trading partner, it will probably allow its capital markets to become more accessible to the rest of the world. Japan has just been invited to join the select few nations (U.S. not included) that are allowed to purchase Chinese Sovereign Debt.

These are all positive signs for our own long term investment outlook, and may suggest a tentative beginning of the next growth cycle. With the caution flags flying, let's discuss these trends in our next quarterly meeting, and decide if it's time to take further steps into the U.S. growth sectors and possibly the emerging markets too. Always, if we're going to make a mistake, let's make it to the side of caution. Once money hits the drain, it's long gone; there is no such thing as a "P Trap" for investments.

Van Mason, CFP™, CLU, MBA



## The Quarterly Profit



# GLASS BLOWING & MORE IN 2012



For those of you who didn't join us in December for the Glass Blowing Ornament Event, you won't want to miss it in 2012! We enjoyed a wonderful dinner, a short market update by Van Mason, and then everyone created their own ornaments. Everything was fun, from picking individual colored glass beads to creating a marvelous masterpiece. A new StoneRidge holiday tradition has begun. This event was truly a unique evening with fantastic company! As we move into January and throughout 2012, StoneRidge will be hosting a number of these special evenings. We invite you to be part of the fun by bringing someone you think is special and who may be interested in learning more about StoneRidge. We look forward to spending more time with our clients throughout the coming year!

Amy Treat, Chief Operating Officer/Partner



## IMPORTANT TAX REMINDER...

In 2009, the Internal Revenue Code extended the deadline to furnish Tax Information statements to customers from January 31 to February 15. LPL Financial is required to report your dividends and other distributions paid by investment companies on the Consolidated 1099 Tax Information Statement (1099 DIV, INT, B, MISC, OID). Mutual Funds, Real Estate Investment Trusts and Unit Investment Trusts are examples of investment companies which pass through tax reporting information to LPL Financial.

As it is common for investment companies to amend tax information, LPL Financial will request a supplemental mailing extension in the event investment companies do not furnish tax information to LPL Financial by the February 15 deadline. This additional extension attempts to minimize the number of corrected 1099s resulting from amended reporting sent by investment companies. The mailing dates for the 1099-R and 1099-Q forms will remain the standard deadline of January 31, 2012.

If you have questions after receiving your tax documents, please feel free to contact me.

Amy Treat, Chief Operating Officer/Partner



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