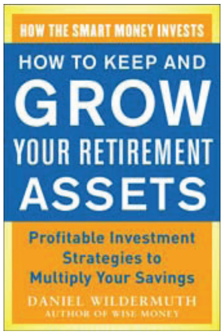
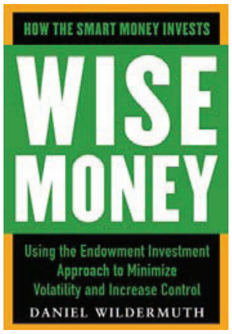
NOVEMBER 2012
MARKET COMMENTARY





This coming January, my book *How to Keep and Grow Your Retirement Assets* will be released. This book is a nearly complete rewrite of a book I published with the same title several years ago. It focuses on helping investors navigate today's unique investment climate of highly volatile markets and record low interest rates. Like the first book, some of the material focuses on diversifying away from stocks and bonds similar to many of the most successful large college endowments.

IMMEDIATE ISSUES: HURRICANE SANDY & ELECTIONS

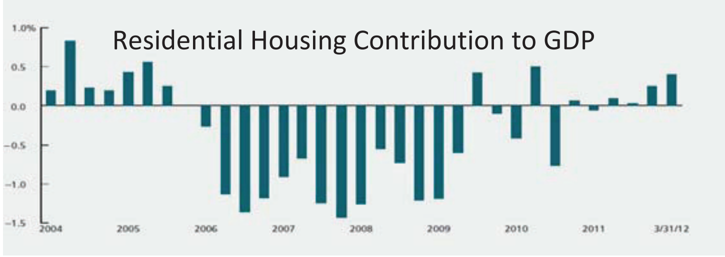
In spite of the severity of hurricane Sandy, world shares rose modestly the day after as the initial impact in the northeastern United States appears to have been less severe than feared. The storm's effect on markets and the economy will be short lived.

Although elections are getting all the press, probably the most meaningful political issue in the *near term* remains the January fiscal cliff resulting from mandated tax increases and spending cuts. Because there is widespread awareness that the combination of these two could throw the U.S. back into recession, it seems very likely that even a divided Washington will work hard to avoid taking the blame for derailing the ongoing anemic recovery. Overall, the market seems fairly convinced that politicians will do something to avoid a catastrophe, even though expectations for major progress remain low.

CONSUMERS AND HOUSING

Since the beginning of the financial meltdown, both consumers and the housing sector have weighed down the recovery. Now, **improving consumer sentiment has been driving spending up, and the retail sector** is looking forward to a much more positive holiday season. A postelection bounce in consumer confidence is typical, no matter which party is victorious, and retailers already expect sales to increase 5 percent this year. Falling gas prices will probably also help consumer confidence leading to increased spending. Even the calendar should help. Two additional shopping days versus 2011 and five weekends from Thanksgiving to Christmas in 2012 provide more time to spend. Each additional day can add $10 billion to sales. Consumers are also gaining more access to credit as credit markets recover and consumers have more room on their cards given their recent spending cutbacks.

Expectations of a stronger holiday season are also spurring hiring, and there should be about 6% more workers on payrolls for the holidays than in 2011. Big retailers such as Toys"R"Us, Kohl's, Macy's, and Wal-Mart are all planning to increase hiring significantly. Moreover, of the 700,000 planned positions, half will be full-time with many expected to become permanent.



Housing also continues to improve and is now adding to GDP as the graph illustrates. Much unsold inventory remains in many markets, particularly in N.Y., N.J. and Fla. But oversupplies in many other hard hit areas such as Phoenix, San Diego, San Francisco and even Las Vegas are waning. Building starts were up an impressive 15% in September, and builder optimism is finally climbing up off the floor. About half of the 350 major metro markets report rising home prices and increases in building permits issued. Just as with retail, a recovery in housing is helping job creation.

NATURAL GAS

Low-cost natural gas has dramatically lessened the economic crisis of the last few years, and continues to provide ongoing stimulus to the U.S. economy. Shale gas, generated mostly from hydraulic fracturing and horizontal drilling, now accounts for 10 percent of the overall U.S. energy supply. The boom has created 1.7 million jobs according to IHS, a global market information and analytics company, and jobs created could rise to 3.0 million by 2020. The U.S. oil import bill has declined about $75 billion this year alone, and cheap energy helps the U.S. compete against China's cheap labor.

CHALLENGES

Unfortunately, just as housing and consumers start contributing, exports and manufacturing are declining mostly driven by problems in Europe and Asia. The euro has been down on Germany's weak manufacturing and service sectors. Germany's thinning order books and sixth straight month of decline in October provided more proof that Europe's largest economy has clearly stagnated in the second half of 2012. Still, European challenges have largely been incorporated into market values.

Asia has been a more recent concern as China's slowdown is increasingly affecting the greater region. The China HSBC Flash Manufacturing Purchasing Managers Index (PMI) reported shrinking growth for a 12th straight month in October. Fortunately, order books are at their most robust since April, signaling a coming recovery. If China can get back on track, worries regarding potential government backsliding on market reforms should ease.

LOOKING FORWARD

Energy factors in as a major positive influence on U.S. growth. Corporate profits remain solid, even if third quarter reported corporate revenues have often fallen short of projections. Valuations are still very reasonable in the U.S. Many foreign markets, particularly emerging markets, are still trading well below historical norms. And money is still very cheap for corporations and looks to remain so for the foreseeable future.

While many people continue to fret about challenges in Washington, and there is admittedly much to fret about, the U.S. private sector continues to find ways to achieve success in spite of the challenges thrown up by government uncertainty and regulation. Barring a complete breakdown of discussions regarding the fiscal cliff, the U.S. economy and markets should continue plodding forward. This year's stock market gains make pull-backs possibly more likely, but also signal growing confidence that the U.S. will keep progressing forward. Moreover, since investors have largely fled to the safety of the U.S., if sentiment improves, many foreign markets may see greater gains given their depressed valuations. I believe U.S. and global equity markets continue to provide investors attractive opportunities for the longer term in spite of near term uncertainties and challenges.

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