



Paul R. Ried Financial Group, LLC
Security for your future

A MESSAGE FROM YOUR FINANCIAL TEAM

Fourth Quarter 2011

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Dear Clients,

It's about time to bring out the 2012 calendars. What a great New Year it would be if only the economic landscape could be changed as easily as the calendar. Unfortunately, the main issues from 2011 are likely to continue to be a source of concern in 2012. However, one thing we can say this year that I'm sure we will feel confident saying next year is "This year was not like the last". The details of every year are indeed unique.

It's That Time of Year

As the New Year arrives we all get bombarded with predictions for the year ahead. Predictions are always interesting to hear, and the media knows that, so they are never in short supply. This might be truer in the financial media than anywhere else.

Given enough forecasts you can eventually determine a consensus. In the financial markets, while measuring consensus may be worthwhile, setting expectations based on it rarely is.

As an example of the "usefulness" of these forecasts, consensus among economists for 2012 (as measured by the median forecast of 54 economists in a recent Wall Street Journal survey) is for slightly below average GDP growth of 2.2%. Now considering the lowest estimate was 1.3% and the highest estimate was 4.4%, someone looking at that may be tempted to think a recession is out of the question.

However, consider that the same survey taken for 2008 resulted in the exact same GDP forecast of 2.2%. In fact not one economist predicted negative GDP growth in that survey either, despite the fact that the survey was taken in December of 2007 (the month the last recession started).

As the World (and Market) Turns

What stood out about the financial markets this year was the extreme divergence in returns between US stocks and International stocks. As of this writing, large U.S. stocks (as measured by the S&P 500) are currently hovering just above break-even for the year while International stocks (as measured by the MSCI EAFE) are down around 13%.

While we consistently hear about the problems of highly indebted countries, it is important to be aware of the other risks as well. World growth has been buoyed by China and other emerging markets. For years there have been increasing reports questioning the sustainability of China's growth. A simple search of "China Ghost Cities" will chronicle this problem of vastly built cities, with virtually no residents.

Many will point to China's centrally planned economic structure as a reason this apparent bubble will not burst. However, we believe the real questions are only how long they can continue to delay the fallout or to what degree they can cushion the fallout. The implications can be large as China consumes over 40% of global metal supplies and other vast resources. This would directly affect the economies of exporting countries like Australia, which is already dealing with a quickly cooling housing market.

While we have little doubt the China growth story will play out over the long-term, not everything happens in a straight line. After all, the story behind what turned into the Internet bubble was essentially correct. The Internet did and continues to change our lives, create new industries and alter existing ones. However, at the wrong price, any investment can be unprofitable.

To The Year That Was & The Year That Will Be

Every year, in fact every day, presents its own set of challenges and opportunities. We believe that by preparing for challenges, opportunities will present themselves. That is why these letters are often focused on the risks we see in the investment landscape.

As always, we continue to diligently monitor individual fund management and performance, as well as actively evaluate long-term economic and market fundamentals as they relate to your overall asset allocation.

We appreciate your trust and look forward to working with each of you in the year ahead. Don't hesitate to e-mail or call us with any questions.

Sincerely, your Financial Team

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