

INVESTMENT PARTNERS, LTD

December 2011 Market Update

Presented by Investment Partners, LTD

Market volatility persists

Sustained market volatility in November confirmed our outlook that large swings in asset prices were likely to continue. Equity markets traded mostly lower during the month, dragged down by concerns over the worsening European debt crisis. Indeed, stocks were set for a historically poor month of performance, but a strong three-day rally at month-end—which saw the Dow Jones Industrial Average gain 7.35 percent and the S&P 500 Index rise 7.69 percent—reversed the selloff.

When the dust settled, the Dow had gained 1.18 percent for the month; year-to-date, as of November 30, it is up 6.70 percent. The S&P 500 managed to gain back almost all of its earlier losses to finish down a nominal 0.22 percent for the month. Year-to-date, it is up 1.08 percent.

Global markets and risk assets

The fate of international equities was similar to U.S. stocks throughout much of November, although market movements, in either direction, were amplified. Troubles in Europe took center stage, causing global markets to whipsaw. In particular, the financial sector experienced extreme volatility because of its exposure to European sovereign debt. Despite a month-end rally, the MSCI EAFE was down 4.85 percent for November, leaving it 11.30-percent lower for the year.

The riskier MSCI Emerging Markets Index lost 6.75 percent for the month, leaving it down 19.37 percent for the year. Higher-risk assets in the fixed income space also struggled. The Barclays Capital U.S. Corporate High Yield Index was down 2.74 percent in November. Meanwhile, the more conservative Barclays Capital Aggregate Bond Index lost just 0.09 percent.

Concerns over Europe's debt intensify

Bond yields have risen to unsustainable levels across the continent—particularly in Italy—causing politicians to scramble for a plan to deal with the crisis. The accompanying chart shows how the yield on Italy's 2-year government bond has spiked. Because Italy's debt level is in excess of \$2 trillion, it is extremely challenging for eurozone leaders to find a solution that won't harm European banks or slow already anemic economic growth.

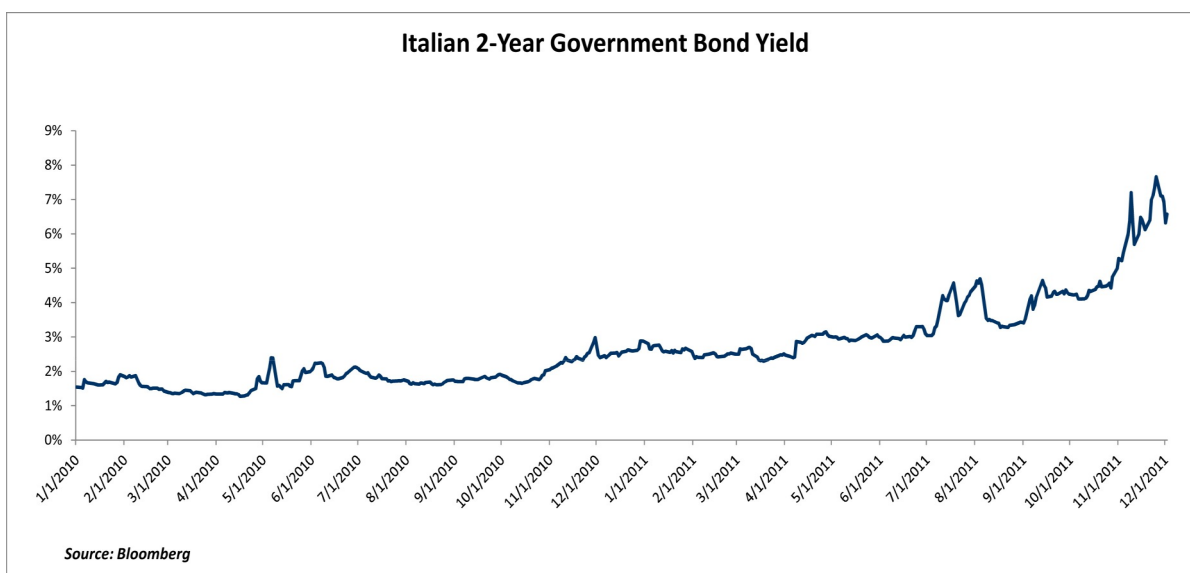
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MARKET COMMENTARY (CONT.)



The central issue is actually more of a fiscal problem than a monetary problem. This means that it will have to be tackled by politicians and not simply dealt with by the European Central Bank. That said, central bank actions can still have an effect. On the last day of November, we saw coordinated intervention by central banks to inject liquidity into the eurozone. Global markets embraced the move and rallied sharply higher. Here in the U.S., markets saw their biggest up day since March 2009.

The fact that this simple step helped markets so dramatically is of real interest. It seems, at least for now, that investors are content with liquidity, even if the ultimate solvency of sovereign issuers remains in question.

Nevertheless, the longer-term problems still need to be addressed. As the largest European economy, the responsibility appears to have fallen on the shoulders of Germany. While measures such as bolstering the European Financial Stability Facility have helped, getting 17 eurozone countries to agree on anything has been difficult, to say the least. Germany itself is internally divided as to how much assistance it owes to its fellow European nations. Given these headwinds, we expect continued market disruptions to emanate from Europe.

Businesses cautious, mixed signals from consumers

A divergence appears to be developing in the U.S. economy. While businesses are showing signs of caution, consumers seem willing to spend. Black Friday sales rose 6.6 percent over the prior year, to an all-time high. Retail sales data has also been strong, although overall spending was lower than expected in October. Some economists have spoken of “savings fatigue” as a potential explanation for why Americans are spending despite negative headlines. This trend suggests that pent-up demand over the past three years could become a tailwind to U.S. growth going forward.

On the other hand, business management teams still have a vivid memory of 2008. The possibility of a second crisis could be causing them to be more vigilant in the current uncertain environment. Investment in inventories was weaker than expected in the latter half of the third quarter, causing a downward revision to gross domestic product (GDP) estimates from 2.5 percent

MARKET COMMENTARY (CONT.)

to 2 percent, annualized. In addition, manufacturing and CEO confidence surveys have both demonstrated that business leaders continue to be conservative in their outlooks.

Setting aside measures of sentiment, the U.S. economy continues to toil along. Housing remains depressed, but manufacturing and the employment situation have shown small signs of improvement. Initial jobless claims have trended lower in recent months, and ISM manufacturing improved in November.

So, while the U.S. economy remains lukewarm, European debt and economic worries are likely to continue to drag on investor confidence. Bloomberg consensus estimates are for GDP to grow just 0.5 percent in the eurozone in 2012. Meanwhile, austerity measures have already pushed some periphery countries into recession; Portugal, for example, has experienced negative growth in every quarter this year.

Year-end housekeeping

With the holiday season upon us, schedules are no doubt stretched thin, and investors may find it difficult to focus on their investments and financial plans. Yet the current environment may present some opportunities for investors to realign their portfolios or even to harvest losses to help ease the tax burden. A little attention now could indeed add value down the road, helping to ensure that portfolios are positioned appropriately to help achieve long-term goals.

***Disclosure:** Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Free Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Barclays Capital U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The Barclays Capital Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Barclays Capital government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities.*

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