

What we are reading:

'Reckless Endangerment: How Outsized Ambition, Greed and Corruption Led to Economic Armageddon'

Gretchen Morgenson, the New York Times Pulitzer Prize winning reporter—along with Joshua Rosner have written a stunning expose of the mortgage mess and the corruption which led to the worst financial crisis since the great depression.

According to the book's introduction, "it is an economic whodunit, on an international scale. But instead of a dead body as evidence, we have trillions of dollars in investments lost around the world, millions of Americans jettisoned from their homes and fourteen million U.S. workers without jobs. Such is the nature of this particular crime."

Vanity Fair says, "Morgenson and Rosner have written the long-awaited volume that gets to the heart of the mortgage crisis and is a remarkable achievement that should be required reading for all Americans."

We look forward to the opportunity in helping you reach your goals.

Sincerely,

Carl P. Sherr & Co., LLC.

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Looking Back at 2011 and Outlook for 2012





1. Financial hangover

'The Hangover' is an American comedy film released in 2009 that tells the story of four friends who travel to Las Vegas for a bachelor party. In the movie, the four friends frantically try to retrace their steps from the previous night, fix the mess they got themselves into and get home in time for the wedding. In 2011, our financial markets were still struggling to emerge from the 'financial hangover' that resulted from the worst crisis since the great depression.

2. Market volatility

Volatility was the driving force—in both directions. According to the Wall Street Journal, "The S&P 500 closed up or down 2% on 35 days in 2011 up from 22 days in 2010." In contrast, the S&P saw similar moves only twice in all of 2005 and 2006. Furthermore, big swings in 2011 saw the S&P up as much as 8.4% in April and down almost 13% in October.

3. A flat finish

U.S. companies churned out record profits but that mattered little in light of the headlines coming from Europe, Asia and the Middle East. The Dow Jones Industrial Average was the lone bright spot—but just barely. The Dow finished up 5.5% while the S&P 500 was flat and the NASDAQ dropped about 2%.

4. Europe and Asia decline

The first four months of 2011 were promising, but debt woes in Europe were unshakeable - sparking worries of a European induced world recession. Broadly speaking, that translated to big declines across Europe with an 11% decline in the Stoxx Europe 600 index. In Brazil, the Ibovespa index tumbles 22% while in China, the Shanghai Composite and Hong Kong Hang Seng fell 22% and 20% respectively.

5. Natural disasters shake confidence

In March, the earthquake and subsequent tsunami that hit Japan turned out to be much more than a natural disaster. The Tsunami disabled the Fukushima Daiichi nuclear plant—and more importantly—raised concerns of a plant meltdown and radiation contamination. As the third largest world economy, the financial effects were felt world-wide.

6. Self inflicted wounds

Making matters worse were 536 elected officials in Washington DC—otherwise known as the U.S. Congress and President of the United States. In the early summer months it became apparent that the U.S. debt ceiling negotiations were deadlocked. Then in early August as a direct result of the political standoff (and lack of any substantial agreement), the U.S. received its first ever credit rating downgrade. The downgrade hit world markets like a financial tsunami—last.

7. Outlook: Challenges ahead

Investors will be faced with more of the same from Europe—as high level summits and tougher spending rules have yet to solve the long term issues of debt, currency and the European Union. Here in the U.S, the coming presidential election will likely bring more political squabbling. Another uncertainty is the future of the health care sector when the Supreme Court takes up President Obama's health care law. Lastly, the price of oil could rise if Iran follows through on its threat to block shipping in Strait of Hormuz.

8. Outlook: On the other hand...

U.S. companies and families continue to improve their balance sheets (commonly called de-leveraging). According to the Federal Reserve, household debt has fallen for 13 consecutive quarters. Second, the dollar remains the 'reserve' currency and U.S. interest rates are expected to stay very low. Third, according to the Institute for Supply Management, the U.S. manufacturing sector continues to improve—expanding for 28 consecutive months. Lastly, investor sentiment remains very cautious—therefore any unexpected good news or positive surprise will have an extra impact to the upside.

Did you know?

For 2012, the IRS has increased the contribution limits into 401k/403b plans. If you are maxing out your employee contributions in 2011, it may be necessary for you to adjust your contribution percentage this year. Please contact us for details—or visit our website at (insert address).