

A close-up photograph of a ripe orange fruit in the foreground, with green leaves and branches of an orange tree in the background. The lighting is bright, suggesting a sunny day.

## Citizens Bank & Trust Market Review

February 2012

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## Job market is on a roll.

### Recent Economic Indicators

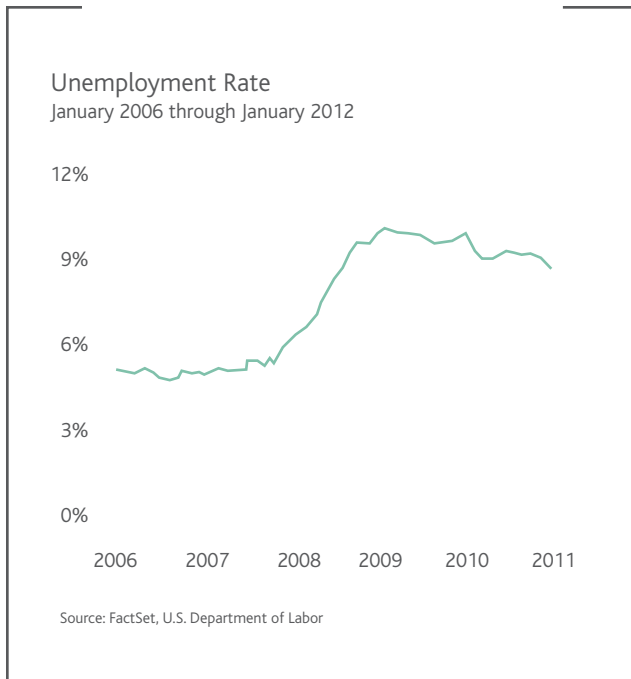
Thomson Reuters/Univ. of Michigan Consumer Sentiment	75.0
Consumer Confidence	61.1
Existing Home Sales, Monthly Change	5.0%
New Home Sales, SAAR*	307,000
Personal Income, Monthly Change	0.5%
Personal Consumption Expenditures, Monthly Change	0.5%
Non-farm Payroll Increase/Decrease	243,000
Unemployment Rate	8.3%
ISM Non-Manufacturing Index	56.8%
ISM Manufacturing Index (PMI)	54.1%
New Durable Good Orders, Monthly Change	1.1%
Industrial Production, Monthly Change	0.4%
Capacity Utilization	78.1%
Retail Sales, Monthly Change	0.1%
CPI, Monthly Change	-0.2%
CPI Core, Monthly Change	-0.1%
PPI, Monthly Change	0.1%
PPI Core, Monthly Change	0.3%
U.S. Trade Deficit	\$47.8 billion
3Q11 Non-farm Productivity, Quarterly Change, SAAR*	0.7%
3Q11 Real GDP, Quarterly Change, SAAR*	2.8%

\*Seasonally Adjusted Annual Rate  
 Bureau of Economic Analysis of the U.S. Department of Commerce, U.S. Department of Labor, the Federal Reserve, Thomson/Reuters/University of Michigan, Institute for Supply Management, National Association of Realtors, The Conference Board.  
 Values reflect most recent data available at time of publication.

### Overview

The Federal Open Market Committee (FOMC) met in January and announced it retained the current policy rate of 0.0 to 0.25%, but did make one key change to the language in the statement. Instead of stating that low rates will likely remain through mid-2013, the statement now reads “economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014.” Additionally, for the first time, the Fed released its projection for the fed funds rate and expected timing of the next move, as well as a longer run goal for inflation. FOMC members see the appropriate long-term fed funds rate somewhere between 3.75% and 4.5%, and their inflation goal, as measured by the PCE price index, at 2.0%. The members’ anticipated timing of the next move was far less useful information than investors had hoped, as expectations were fairly evenly distributed between 2012 and 2016. The Fed also lowered its forecast for GDP growth, inflation and the unemployment rate.

The International Monetary Fund (IMF) downgraded its outlook for world economic growth and warned the European crisis could plunge the globe into another recession. “The outlook for growth is mediocre, and it could be worse,” said Olivier Blanchard, director of research at the IMF. They expect global growth to be only 3.3% as opposed to the 4.0% figure they released in September and predict the euro area to fall into recession. The IMF lowered growth expectations for every country with the exception of the U.S. which they still believe will expand 1.8% this year. The Department of Commerce reported fourth quarter GDP growth in the U.S. had accelerated to 2.8% from the previous quarter’s 1.8%.



## Employment

Initial jobless claims for the week ended January 28 fell 12,000 to 367,000. The four-week moving average shifted down for the eighth time in nine weeks to 375,750. The four-week average has now held below the key 400,000 mark for a convincing 12 straight weeks. Initial claims are now at a level that can be considered typical for run-of-the-mill economic conditions and should result in sustained improvements in the unemployment rate if it is maintained.

The job market turned in its best performance since April, according to the employment situation report from the Labor Department. 243,000 U.S. workers were added to the payrolls in January, following a 203,000 increase in December. The private sector once again outstripped the total adding 257,000 jobs while the government sector continued to get leaner shedding 14,000 from its payrolls. The report also included annual revisions that showed 180,000 more jobs than originally thought were added in 2011, bringing the total for the calendar year up to 1.82 million. The household survey showed the unemployment rate dropped for the fifth straight month falling to 8.3% from 8.5%, although that cannot be taken at full face value as the improvement was in part due to a revised population count. Overall the employment report was a huge positive surprise and it would appear the jobs recovery is in full swing.

## Consumer Confidence and Spending

The strong, positive momentum in consumer confidence seen at the end of 2011 failed to spill over into the New Year. The Conference Board's index retreated 3.7 points in January to 61.1. Lynn Franco, Director of The Conference Board Consumer Research Center, said "consumers are more upbeat about employment, but less optimistic about business conditions and their income prospects."

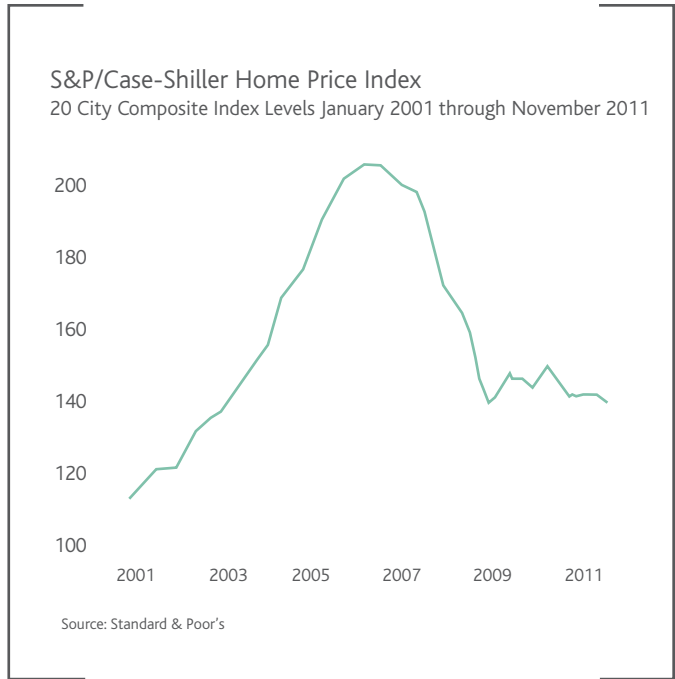
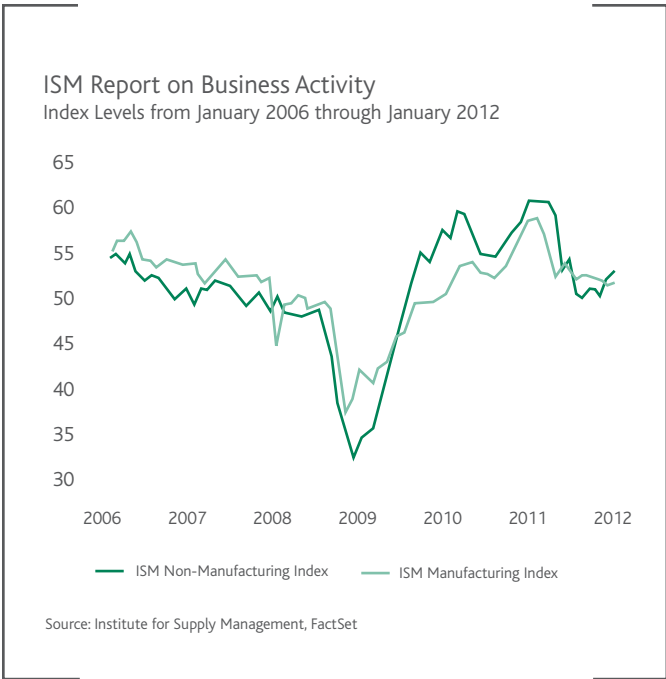
Personal income grew at an accelerated pace in December but did not translate into more spending, according to the Commerce Department. Personal income jumped 0.5% following a 0.1% increase in November. Despite having more income, consumers did not loosen their purse strings and spending came in flat for the month. Retail sales told a similar story edging up only 0.1% during the month, according to the Commerce Department. On a year-over-year basis retail sales were up 6.5%, down from 7.0% in November. Despite the weak numbers in December the increase in income should translate to gains in consumer spending and retail sales in the coming months.

## Inflation

Inflation pressures for the consumer were kept in check for the third month in a row thanks to falling energy prices. A report from the Labor Department showed headline inflation was flat for December. Year-over-year CPI inflation decelerated to 3.0% from 3.4% in November. Inflation at the producer level edged down 0.1% during the month after climbing 0.3% the previous month. The decrease was largely attributable to a 0.8% drop in energy prices. Inflation has now moderated to a level that allows the Fed to comfortably keep its accommodative monetary policies in place for the time being.

## Business Activity

There was more good economic news as manufacturing expanded for the 30th consecutive month, according to the Institute for Supply Management. The PMI registered 54.1 in January, up one point from December's revised reading of 53.1. New orders accelerated further and the order backlog also started to grow – both positive signs. Comments from respondents to the survey were more upbeat and indicated a positive outlook for 2012. The non-manufacturing sector also expanded up a strong 3.6 points to 56.8. The employment index surged 8 points mirroring the strength seen in the employment numbers.



Durable goods orders were up 3.0% in December following a 4.3% surge the previous month. Strength was widespread across a number of components. Both reports indicate economic growth is accelerating in a more broad fashion than we have seen in recent months.

#### Housing

Existing home sales were up for the third straight month in December, according to the National Association of Realtors (NAR). Sales rose 5.0% to a 4.610 million unit rate, enough to bring down supply on the market to 6.2 months – the lowest level since 2006. Lawrence Yun, NAR chief economist, said "Record low mortgage interest rates, job growth and bargain home prices are giving more consumers the confidence they need to enter the market."

The recent trend of positive news on the housing market reversed course later in the month however as the Census Bureau reported new home sales fell 2.2% in December. The 2011 total came in at 302,000, 6.2% less than 2010 and the lowest number since the government began tracking the data in 1963. Median new home prices were also disappointing, down 2.5% for the month and 12.8% for the year to \$210,300. The Case-Shiller 20-city home price index also fell 0.7% in November, moderating hopes that we might be at the beginning of a turnaround in the housing market.

#### World Economy

The European Central Bank (ECB) decided to hold interest rates steady at 1.0% during its first policy meeting of the year, following consecutive cuts at its last two meetings. ECB president Mario Draghi said "There are tentative signs of stabilization of economic activity at low levels." He also indicated monetary policy will remain accommodative, and the ECB stands ready to act if additional monetary easing is necessary.

A report released this month showed China's export growth slowed in December to its lowest level in two years on weakness in demand from Europe. Economic growth in China also slowed in the fourth quarter to an annual pace of 8.9%, according to the National Bureau of Statistics. While this would be considered blistering growth by U.S. standards, it is rather slow for the world's second largest economy where 10% has been the norm for the past three decades. The number was better than expected, though, and gives some credence to the assertion that China can manage a soft economic landing. Taming inflation was one of the government's top priorities last year, and tighter credit appears to have brought the housing boom to a halt. China's top leaders are shifting away from inflation concerns in 2012 and instead focusing on stabilizing growth.

## Another strong month for the fixed income markets.

Fixed Income Current Yields	1/31/12
3 Month U.S. T-bill	0.06%
2 Year U.S. Treasury	0.22%
5 Year U.S. Treasury	0.71%
10 Year U.S. Treasury	1.83%
30 Year U.S. Treasury	2.94%

Total Returns <sup>1</sup>	1 Month	YTD
Barclays U.S. Aggregate	0.88%	0.88%
Barclays U.S. Govt./Credit	1.07%	1.07%
Barclays U.S. Municipal Bond	2.31%	2.31%
Barclays U.S. Corp. High Yield	3.04%	3.04%
Barclays U.S. Long Credit A	2.32%	2.32%
Barclays U.S. Treasury 20+ Year	-0.29%	-0.29%
Barclays Global Aggregate	1.67%	1.67%
Barclays Emerging Markets	2.34%	2.34%

<sup>1</sup> 1 Month and 12 Month ending 1/31/12.  
Source: U.S. Department of the Treasury, Barclays Capital  
Values reflect most recent data available at time of publication.

### Overview

Similar to last month, most bond market asset classes rose sharply with the exception of long-term U.S. Treasuries. Investment grade corporate, high yield, municipal, emerging market and global treasury ex-U.S. indices all posted gains near 2.00% or higher, while the Barclays U.S. Treasury: 20+ Year index returned -0.29% for the month. Separately, the outlook for Europe improved modestly, with yields on Italian and Spanish 10-year government debt dropping below the 6.0% level, a rate that suggests these countries may avoid a bailout.

Looking ahead, spread products remain attractive, particularly U.S. investment-grade corporates, high yield and munis, given still strong fundamental factors and attractive valuations. Contrastingly, we recommend an underweight position in TIPS as their recent strong performance has driven yields sharply lower, even negative for maturities out to ten years. While a negative TIPS yield does not necessarily amount to a negative return as it would for a conventional bond, it does mean investors will not be fully compensated for inflation over the remaining life of the bond.

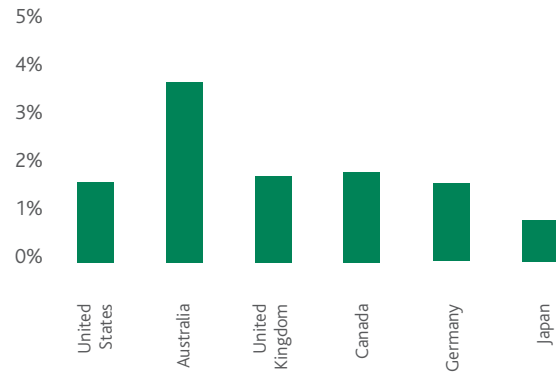
Meanwhile, the Fed's "Operation Twist", an effort to stoke the economy in which the central bank sells short-term maturities in order to purchase longer-term securities, may be having an unintended consequence on the markets, according to some market participants. One of the goals of the program was to push investors out of Treasuries and into stocks. However, this, along with the Fed's pledge to keep short-term rates near zero until late 2014, has encouraged some investors to focus on longer-dated Treasuries in an effort to increase yield in their portfolios. Strategists suggest this combination has caused 30-year bond yields to fall below rational levels, distorting the ability of long-term bonds to act as an important gauge of inflation expectations.

Investment Grade Corporate Spread  
In Basis Points, through January 2012



Source: Merrill Lynch

10-Year Government Bond Rates  
Latest Yield as of 1/31/2012



Source: Bloomberg

### Corporate

The investment grade corporate sector finished sharply higher gaining 2.21% for the month, outperforming U.S. government debt securities by a wide margin. Many strategists feel the Federal Reserve’s pledge to keep short-term rates low through late 2014 encourages investors to focus on the extra yield, or spread, offered by high-grade bonds. Other factors driving robust demand include reduced corporate leverage, improved profit margins and declining financial market volatility. Although most eurozone financial sector bonds should be avoided given the high degree of risk still associated with this region, attractive opportunities exist for selective banks in Canada and Australia, as they are likely to benefit from still wide spreads and rock-solid balance sheets.

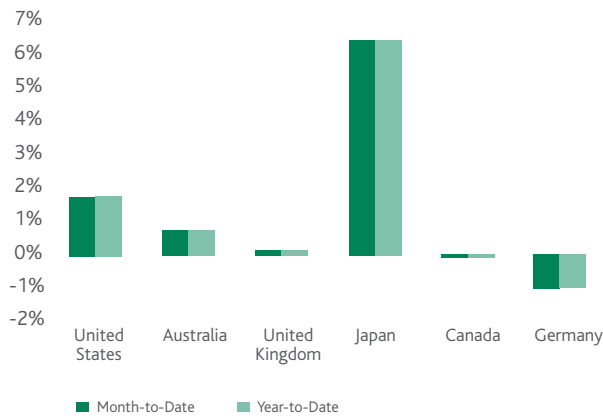
High yield bonds also rose considerably gaining 3.04% for the month, as market participants returned to riskier asset classes. Looking ahead, fundamentals within most of the better-quality high yield markets remain strong. Rating agency upgrades outpaced downgrades by a wide margin in 2011, and default rates for 2012 are expected to rise only modestly while remaining below their long-term average of 4.0%. Currently, high yield spreads are approximately 700 basis points over similar maturity Treasury rates, with some strategists suggesting they have the potential to narrow in 2012 by as much as 150 basis points. Against this backdrop, investors should maintain a market-weight exposure to this asset class via mutual funds or ETFs.

### Municipals

Following the lead of most other fixed income sectors for the month, the Barclays Municipal Bond index gained 2.31%, posting gains in nine of the last ten months. Strong demand as evidenced by substantial mutual fund flows and still low supply were the primary drivers of returns. Although absolute yields remain near record lows, relative value as expressed by tax-exempt yields as a percentage of corresponding U.S. Treasury note yields resides well above historical averages. Looking forward, strategists recommend a cautious stance on segments of the municipal market where demand has been particularly robust, specifically long-dated and low-rated bonds. Drivers of the cautious stance include heightened uncertainty regarding the implementation of pending regulation, the Volcker rule, and a continuation of the recent public finance downgrade trend from the rating agencies. Given these concerns, we advocate selective selling on the long end of the yield curve and among weaker credits, BBB and below.

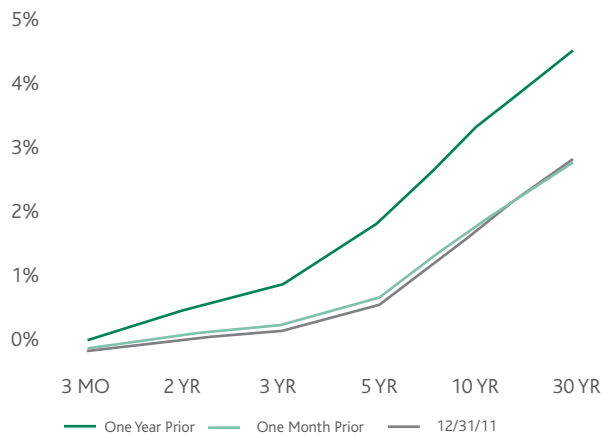
Looking back, the dire predictions for this category in early 2011 created opportunities for investors who were able to overlook these forecasts and instead focus on fundamentals. Recall that in early 2011 we recommended market weight positions in this area despite the media hype surrounding Meredith Whitney – one of the many calls that worked for us last year. Despite ongoing concerns, strategists feel attractive investment opportunities will likely continue in more conservative segments as the market appears to be trading on the individual merits and characteristics of municipalities. We continue to recommend high quality municipal bonds in the five- to 10-year maturity range for moderate to aggressive investors, and a one- to five-year focus for conservative investors.

Performance by Country  
Unhedged Total Returns, January 2012



Source: Barclays Capital

U.S. Treasury Yield Curve  
As of 1/31/12



Source: U.S. Department of Treasury

### International

The Barclay's Global Treasury ex-US index gained 1.99% on an unhedged basis, but increased by only 0.82% on a local currency basis, consistent with a weaker U.S. dollar against the euro and other currencies. A majority of the international markets advanced, with safe-haven countries including the U.K., France, Canada and Australia posting modest gains in local currencies. For the second straight month, treasury securities from many eurozone peripheral countries increased dramatically with Italy (5.49%), Ireland (6.81%) and Spain (2.12%) leading the pack as investors focused on over-sold sectors. As a whole, the Euro Broad Market Index finished higher by 1.88%, one of the greatest monthly gains since 2009.

Earlier in the month, ratings agency Standard & Poor's downgraded France from AAA to AA+, sparking a short-term flight-to-quality trade. Spain, Italy and Austria were also downgraded, leaving Germany as the only stable AAA rated country in the region. France has become a focus in the fixed income arena because any downgrades will likely increase borrowing costs for the European Financial Stability Facility (EFSF), whose own rating depends largely on the credit quality of the countries that back it. An important implication is that the EFSF would then have to pass on these higher borrowing costs to countries such as Ireland and Greece, making it more difficult for these countries to reduce their budget deficits. Despite these concerns, many market participants are not convinced the downgrades will have a significant impact on the markets. "It's not a catastrophe," French Finance Minister Francois Baroin said, noting his country now has the same rating as the U.S.

### Federal Reserve Transparency

Early in the month Federal Reserve officials disclosed their decision to begin detailing their plans for short-term interest rates, the latest in a number of unconventional steps engineered by Chairman Bernanke to confront a weak U.S. economy. Previously, the Fed would release their forecasts for economic growth, unemployment and inflation on a quarterly basis, but never included predictions for the one thing they control most directly, short-term rates. Under the new policy, the central bank's public forecast will include an expectation for when they expect to move the benchmark fed funds rate up from its current level of near zero. They will also describe in more detail plans for their \$2.9 trillion balance sheet, including bond-buying programs to spur growth. Many strategists believe this decision could ultimately lead to less volatility in the markets. At the same time however, skeptics feel the new policy may face potential pitfalls including the risk that it may distort markets as investors mistakenly view the forecasts as an ironclad commitment, rather than a projection that could change as the economy evolves.

## 2012 starts the year on a high note.

Total Return	Month	YTD
Dow Jones Industrial Average	3.55%	3.55%
S&P 500	4.48%	4.48%
NASDAQ Composite	8.06%	8.06%
S&P 100	4.19%	4.19%
S&P 400 MidCap	6.61%	6.61%
S&P 600 SmallCap	6.58%	6.58%
Russell 2000	7.07%	7.07%
MSCI EAFE	5.35%	5.35%

<sup>1</sup> Month and YTD total return ending of 01/31/2012.

Values reflect most recent data available at the time of publication.  
Source: FactSet, Zephyr StyleAdvisor, Standard & Poor's, Russell Indices,  
The Wall Street Journal, Reuters, Morgan Stanley Capital International,  
MarketWatch, Financial Times

### Overview

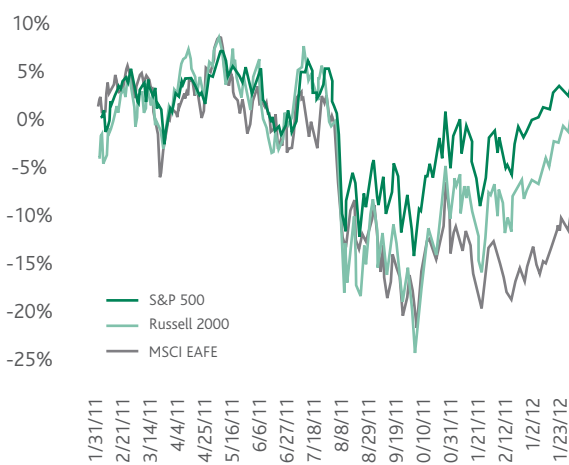
Positive economic data, the lack of negative news headlines surrounding the European debt crisis, and solid corporate earnings results led stocks higher worldwide in the month of January. The Federal Reserve's statement that interest rates will remain low until at least 2014 also cheered investors. Most markets were positive each week of the month. According to Standard and Poor's, full year results (positive or negative) match January's performance 73% of the time.

The Dow Jones Industrial Average had a total return of 3.6% in January. The broader S&P 500 index returned 4.5%, marking the best January return since 1967, while the technology heavy NASDAQ Composite Index rallied 8.1%. This was a reversal of 2011 performance when the NASDAQ (-0.8%) trailed the S&P (+2.1%) and the Dow (+8.4%) in total return. Investors searched for beta and took advantages of bargains in sectors and industries that underperformed last year.

Corporate earnings data was mixed last month. Companies including Microsoft, Apple and Caterpillar reported earnings ahead of expectations. Apple's sales of 37 million iPhones and 15 million iPads allowed the company to surpass Exxon Mobil in terms of market capitalization. Google missed estimates on both revenue and earnings, but reported slowing growth in operating expenses and capital expenditures, a positive sign for margins going forward. With 53% of S&P 500 companies reporting as of February 3, earnings have surprised by 3% on average. Information Technology companies have surprised the most, by 11%, while Financials have missed expectations by about 5% on average. Fourth quarter 2011 S&P corporate earnings are now projected to grow less than double-digits for the first time in nine quarters.

## Equity Performance

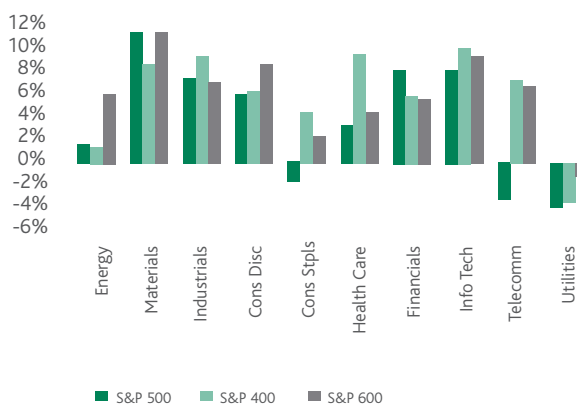
Trailing one Year Cumulative Price Return, as of 1/31/12



Source: Yahoo! Finance

## S&P Sector Performance by Market Capitalization

1/31/12



Source: Standard & Poor's

### Domestic Equity

Materials (+11.1%), Financials, (+8.0%) and Information Technology (+7.6%) had the highest total returns in January. Freeport McMoran (+26.4%) and DuPont (+16.5%) led the Materials group. Bank of America (+28.2%) and Goldman Sachs (+23.3%) were very strong as investors reached for bargains in financial services, the weakest sector in 2011. Returns were negative for Telecommunication Services (-3.9%), Utilities (-3.7%), and Consumer Staples (-1.7%) due mainly to profit-taking in high dividend yielding stocks that had outperformed last year. Altria and Procter & Gamble both fell 4.8% while Exelon was down 8.3%.

According to Russell Indices small cap stocks outperformed mid cap and large cap stocks in January as beta returned to the markets. The Russell 2000 Index of small cap companies increased 7.1% compared to returns of 6.1% for the Russell Midcap Index and 4.9% for the Russell 1000 Index. Growth outperformed value across all market caps for the month. Large cap growth (+6.0%) returns were higher than large cap value (+3.9%). Mid cap growth stocks also outperformed mid cap value stocks, +7.3% versus +4.9%, respectively. In small cap the outperformance was slightly less significant with growth outperforming value with returns of +7.5% versus +6.7%, respectively.

In other corporate news, Eastman Kodak filed for bankruptcy in order to improve liquidity and monetize non-strategic assets. Sales for Kodak have declined in half from 2005-2010, and earnings have been negative since 2006 as the company has struggled to keep up with competitors in the digital age. Facebook submitted its long awaited IPO filing which will value the company in the range of \$75 to \$100 billion. Swiss power distribution equipment company ABB agreed to buy Tennessee-based Thomas & Betts for \$3.9 billion. Bristol Meyers announced it will acquire hepatitis-C drug developer Inhibitex for two and a half times its pre-deal closing price.

### International Equity

After dismal performance in 2011, international equities rebounded nicely, especially in emerging markets. The broad MSCI EAFE Index of developed markets had a total return of 5.4% in U.S. dollar terms for the month of January with nearly all markets positive excluding Ireland (-0.8%) and Portugal (-3.52%). The MSCI Index for Greece rallied 24.7% while Germany (+10.7%) and Italy (+6.4%) also had solid positive returns. The lack of any bad news about the European debt situation and particularly Greece was encouraging enough for investors to turn positive toward international equities.

The total return for the MSCI Emerging Markets Index was 11.4% in January. India (+21.0%), Brazil (+15.2%) and China (+10.8%) were among the strongest. Brazil has been buoyed by upbeat economic data in the U.S. and China, two of its major trading partners. The country's central bank also cut interest rates by 50 basis points to stimulate growth. China reported GDP growth slightly ahead of estimates. Online media company Sina Corp SINA (+35%) and solar power company SunTech Power Holdings (+44.4%) rallied back from late 2011 lows, while search engine Baidu (BIDU) was up 12%. China's internet population has been on pace to add 25 million users every six months.

## Alternatives start the year positive across the board.

Price Change	Month	YTD
Dow Jones UBS Commodity Index	2.47%	2.47%
Oil	-0.37%	-0.37%
Copper	10.30%	10.30%
Gold	10.89%	10.89%
NAREIT- All REITS	6.47%	6.47%
NAREIT-Industrial/Office	8.67%	8.67%
NAREIT- Residential	4.04%	4.04%
S&P Global Property Ex-U.S.	-1.40%	-1.40%
HFRI Emerging Markets Index	5.28%	5.28%
HFRI Fund Wtd Comp. Index	2.63%	2.63%
HFRI Equity Market Neutral	2.50%	2.50%
HFRI Event Driven	2.44%	2.44%
HFRI Market Defensive	1.31%	1.31%
HFRI Merger Arbitrage	0.77%	0.77%
HFRI Short Bias	-8.31%	-8.31%

1 Month and YTD total return as of 1/31/12  
 Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research, Standard and Poor's, wsj.com - Market Data Center, Private Equity Online, FINalternatives. Values reflect most recent data available at time of publication.

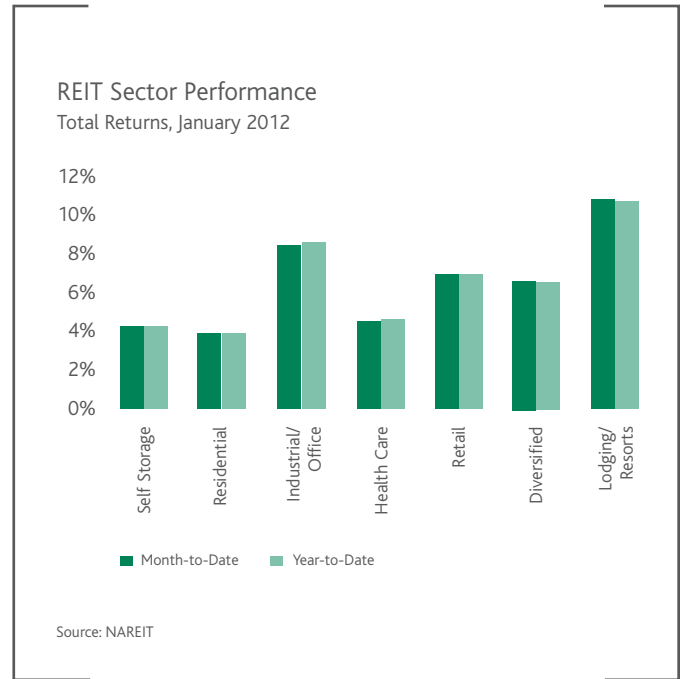
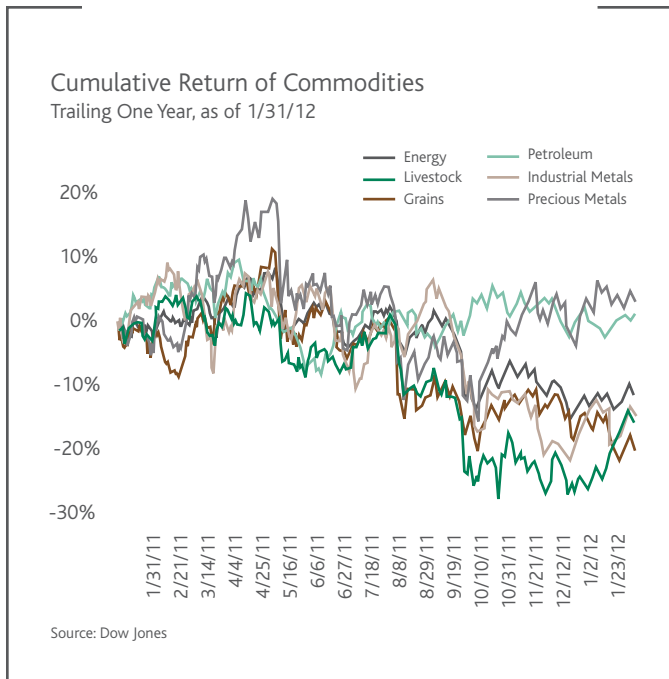
### Overview

Alternatives kicked off 2012 on the right foot, as commodities, hedge funds and real estate investment trusts (REITs) all posted positive returns for January. The Dow Jones UBS Commodity Index rose 2.47%, the HFRI Fund Weighted Composite Index gained 2.63% and the FTSE NAREIT All REITs was up 6.47% last month.

### Commodities

The Dow Jones UBS Commodity Index had a good start to the year, gaining 2.47% in January, with most components of the index achieving solid positive returns. The primary detractor from the index was Natural Gas; this energy source continued its 2011 plummet, falling 17% in price during the first month of 2012. This is a continuing trend that should be briefly addressed as we begin the year. Technological advances have allowed us to extract natural gas at an increasingly efficient pace, which is usually a good thing. However, consumption has not grown proportionally with increased production – actually, consumption has barely risen at all since 1970. One reason for this discrepancy is that natural gas is extracted as a by-product during shale drilling in places like the Bakken field in North Dakota; the goal is to extract the crude oil, but natural gases are produced and contained during that process. Therefore, this gas is essentially free to produce as the drillers produce the gas while they are attempting to harvest the real target – oil. Another reason for the depressed natural gas prices is the warm winter in the U.S. this year. Heating demand is nearly 20% lower than average, and while this decline is partially offset by increased natural gas usage in electricity generation, nearly half of Americans heat their homes with natural gas, so a 20% drop is significant. Fortunately, demand is growing globally for a number of reasons, but the current supply is still so strong that many analysts see prices staying depressed for quite a while.

Agricultural commodities floundered around breakeven levels, all posting returns within a few percentage points of zero. The real winners were precious metals; gold and copper both gained over 10% and silver nearly 20% in January. Every metal in the index



returned over 10% for the month with the exception of lead, which finished up 8.3%. These gains, which mark the best start to a year for gold and silver since 1980, can most likely be attributed to a combination of positive news from Greece, a weakening U.S. dollar, and positive economic numbers from China.

Finally, crude oil (WTI) dropped a mere 0.37% in January as it continues to flirt with the \$100/barrel mark. Oil prices continue to fluctuate as polar factors affect price movements with falling U.S. demand pulling prices down and speculation about Middle Eastern turmoil alongside North African production issues concurrently pushing prices up. Inventories have recovered nicely due to increased production outside of the OPEC area, and many analysts are suggesting that prices may stay constant or even drop for the near future.

#### Real Estate

Real estate investment trusts (REITs) picked up right where they left off in 2011, with the FTSE NAREIT All REITs index up 6.47% in January. The FTSE NAREIT Equity REITs was also up 6.50% last month, outperforming the S&P 500 with a return of 4.48% for the same period. Every property sector and subsector posted positive returns for January, but the two brightest were industrial and lodging/resorts, with returns of 10.39% and 10.87%, respectively. Coming off a strong 2011, where it was up 12.20%, the retail sector continued to shine, gaining 7.03% in January.

In other real estate news, real estate investment groups in the U.S. are preparing to raise more funds to buy subprime and other private mortgage-backed securities, aided by attractive returns and rising share prices. REITs have already been big buyers in the market for packages of mortgages backed by Fannie Mae, Freddie Mac and other government agencies, creating what some have termed a "shadow" financing system for U.S. mortgages. According to the Financial Times, "REITs are beginning to turn their attention to subprime and other riskier 'non-agency' mortgage securities, drawn by high yields relative to the low cost of borrowing, which is a result of the Federal Reserve's move to keep rates at close to zero until 2014."

#### Hedge Funds

After a brutal 2011, hedge funds are holding strong to their New Year's resolution of performing better in the upcoming year. According to Hedge Fund Research, the HFRI Fund Weighted Composite Index gained 2.63% in January, the index's second-best month since December 2010, according to the hedge fund data agency. Equity hedge strategies performed best in January, gaining 3.84%, based on strong fundamental growth, value, energy and basic materials sub-strategies. Event driven and relative value arbitrage strategies added 2.4% and 2.3%, respectively, last month thanks to special situations and activist funds in the event driven category and yield alternative and convertible arbitrage exposure in the relative value category. Helped by discretionary strategies and gains in quantitative, trend-following strategies, macro strategies gained 1.1% in January. Currency and commodity-focused funds both posted January gains despite underlying asset volatility. The only negative performers were equity hedge-short bias funds, which fell 8.3% in January, after adding 0.4% in 2011.

Emerging markets (EM) funds, which were hit the hardest last year, flipped the switch in January, adding 5.3%, the strongest showing since May 2009, with a return of 9.6%. A report from FinAlternatives went on to note that hedge funds focusing on Russia/Eastern Europe and Latin America exposures led EM performance, gaining 9.2% and 6.9%, respectively. Kenneth Heinz, the president of Hedge Fund Research attributed January performance to a number of factors, which he described as "generally constituting a reversal of the cyclically high levels of risk aversion which influenced not only fundamental asset price convergence, but also capital allocations by leading investors throughout 2011." He went on to state, "while equity markets are off to a strong start, investors should remain cognizant of the dynamic risk environment across currencies, commodities, strategic acquisitions, fixed income and emerging markets which will continue to create opportunities both long and short throughout 2012."



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