



Citizens Bank & Trust  
Market Review

January 2012

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## Job market starts to find footing.

### Recent Economic Indicators

Thomson Reuters/Univ. of Michigan Consumer Sentiment	67.7
Consumer Confidence	64.5
Existing Home Sales, Monthly Change	4%
New Home Sales, SAAR*	315,000
Personal Income, Monthly Change	0.1%
Personal Consumption Expenditures, Monthly Change	0.0%
Non-farm Payroll Increase/Decrease	200,000
Unemployment Rate	8.5%
ISM Non-Manufacturing Index	52.6%
ISM Manufacturing Index (PMI)	53.9%
New Durable Good Orders, Monthly Change	3.8%
Industrial Production, Monthly Change	-0.2%
Capacity Utilization	77.8%
Retail Sales, Monthly Change	0.2%
CPI, Monthly Change	-0.1%
CPI Core, Monthly Change	0.1%
PPI, Monthly Change	0.3%
PPI Core, Monthly Change	0.1%
U.S. Trade Deficit	\$43.5 billion
3Q11 Non-farm Productivity, Quarterly Change, SAAR*	2.3%
3Q11 Real GDP, Quarterly Change, SAAR*	1.8%

\*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

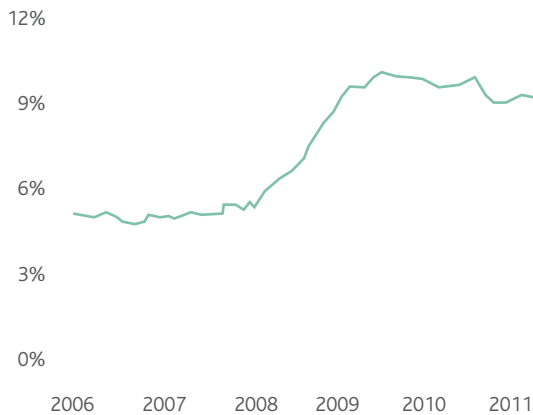
The Federal Open Market Committee (FOMC) met in December and announced it will retain the current policy rate of 0.0 to 0.25% and also kept the language in its statement saying the rate will likely remain exceptionally low through at least mid-2013. Chicago Fed President Charles Evans was the lone dissenter in the vote as he wanted to see "additional policy accommodation at this time." According to the statement "the Committee continues to expect a moderate pace of economic growth over coming quarters and consequently anticipates that the unemployment rate will decline only gradually" and "strains in global financial markets continue to pose significant downside risks to the economic outlook."

The FOMC minutes released later in the month showed the meeting was far more involved than the statement indicated. "With regard to the forward guidance to be included in the statement to be released following the meeting, several members noted that the reference to mid-2013 might need to be adjusted before long. A number of members noted their dissatisfaction with the Committee's current approach for communicating its views regarding the appropriate path for monetary policy, and looked forward to considering possible enhancements to the Committee's communications." It was also revealed some members felt economic conditions warranted further policy accommodation, while a few thought continued accommodation beyond the near-term was inappropriate given their outlook for inflation and economic activity.

Economic growth got another downward revision in the Commerce Department's third and final estimate for the third quarter. GDP growth was revised down to 1.8% from the second estimate of 2.0% and the initial estimate of 2.5% back in October. This puts year-over-year economic growth at a sluggish 1.5%. The revision was primarily due to less growth in personal consumption and a smaller decline in inventories. This would likely push expectations for fourth quarter GDP down if it were not for the significant improvements seen in the labor market.

## Unemployment Rate

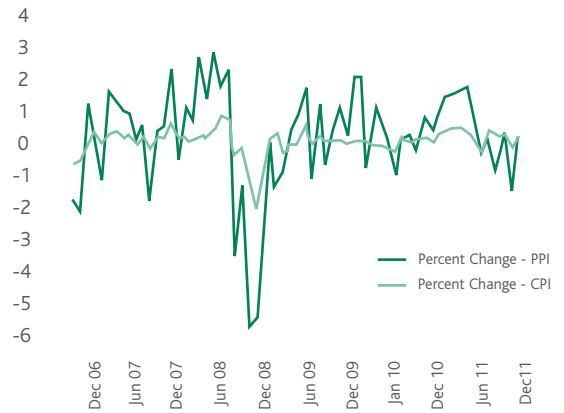
January 2006 through December 2011



Source: FactSet, U.S. Department of Labor

## Change in PPI and CPI, monthly

December 2006 - November 2011



Source: Federal Reserve Bank of St. Louis

## Employment

The job market continued to show tangible improvement throughout December, indicating the positive trend in recent months may be sustainable. Initial jobless claims for the week ended December 31 fell 15,000 to 372,000. The four-week moving average shifted down for a fifth straight week to a recovery low of 373,250. Continuing claims also declined with the four-week average for the week ended December 24 falling nearly 70,000 from the end of November to a recovery best 3.602 million. These numbers are very encouraging and indicate the improving labor market is starting to find its footing.

According to Challenger, Gray & Christmas, employers announced plans to shed 41,785 workers from their payrolls in December – the lowest level since June. The financial sector had the largest number of layoffs, and while government cuts were not a big factor this month, this has not been the case throughout the year. CEO John A. Challenger said “Job cuts in 2011 were dominated by the government and financial sectors. These two alone accounted for 41 percent of all the job cuts announced last year.” He believes it is likely this trend will continue in 2012 as the Federal Government is under intense pressure to cut spending and the European debt crisis hangs over Wall Street.

The December employment situation report from the Labor Department showed the job market ended the year with a strong push. 200,000 jobs were added in December, bringing the total for 2011 up to 1.6 million. The private sector surpassed the total yet again with 212,000 jobs added while the long-term trend of declining government payrolls continued with a loss of 12,000. The payroll gains helped push the unemployment rate down from a revised 8.7% in November to 8.5%, the lowest level since February 2009. The employment data is showing us businesses are starting to lay off fewer workers and hire more. Hopefully this year-end momentum will carry into 2012.

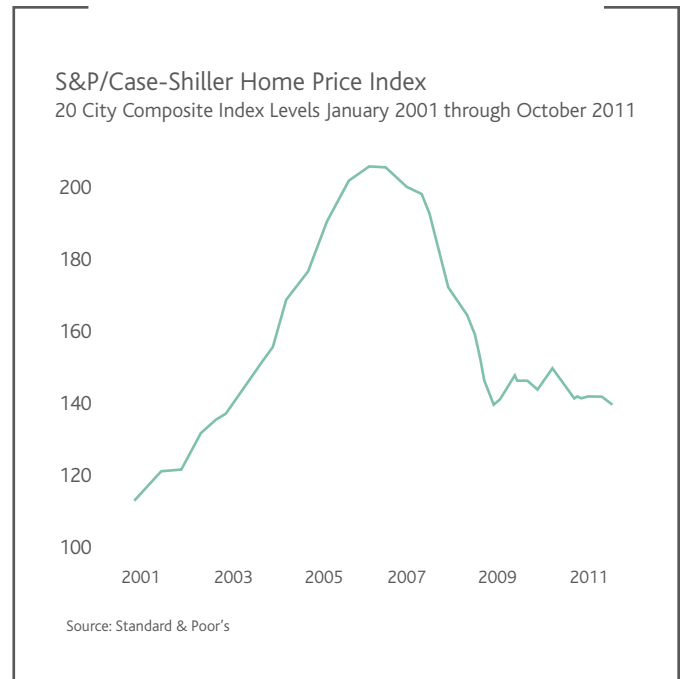
## Consumer Confidence and Spending

Consumer confidence ended the year on a high note, according to the Conference Board’s index. The index rose 9.3 points to 64.5 in December, following a 15.1 point jump the previous month. Lynn Franco, Director of The Conference Board Consumer Research Center said “After two months of considerable gains, the Consumer Confidence Index is now back to levels seen last spring (April 2011, 66.0). Consumers’ assessment of current business and labor market conditions improved again. Looking ahead, consumers are more optimistic that business conditions, employment prospects, and their financial situations will continue to get better.” It is too soon to tell whether this upbeat mood will lead to a sustainable improvement in confidence in 2012.

Despite a strong Black Friday, retail sales figures for November were up only 0.2% according to a report from the Commerce Department. The figure fell short of expectations, but the disappointment was partially offset by upward revisions to the previous two months of data. Electronics & appliance stores were the strongest component up 2.1%, while sales at miscellaneous retailers fell 1.2%. Personal income and spending also showed modest gains in November. Personal income rose 0.1% but the wages & salaries component slipped 0.1% after a 0.6% rise the previous month. Consumer spending edged up 0.1%, with weakness coming from non-durables; likely due to a drop in gasoline prices.

## Inflation

Inflation pressures for the consumer remained at bay for the second month in a row thanks to falling energy prices. A report from the Labor Department showed headline inflation was flat for November after a 0.1% decline the previous month. Year-over-year CPI inflation decelerated to 3.4% from 3.6% in October. Inflation at the producer level picked up, however, rising 0.3% during the month. The increase was largely attributable to a 1.0% jump in food prices. The Fed needs inflation levels to remain tame in order



to keep its accommodative monetary policies in place. Core inflation pressure was subdued in both imports and exports, according to a report from the Commerce Department. Import prices rose 0.7% in November as the cost of petroleum jumped 3.6%, but excluding petroleum prices actually fell 0.2%. Meanwhile, export prices were only up 0.1% thanks to a rise in the value of the dollar.

#### Business Activity

There was more good economic news as manufacturing expanded for the 29th consecutive month, according to the Institute for Supply Management. The PMI registered 53.9 in December, up 1.2 points from November's reading of 52.7, the highest reading since June. New orders followed up a very strong 4.3 point jump last month with a nearly one point gain in December to 57.6 signaling further acceleration. The non-manufacturing sector also expanded, but at a slower rate. The composite was up 0.6 points to 52.6, but below expectations. The report indicates while economic growth is accelerating, the recovery is not robust in all areas.

Durable goods orders surged in November thanks to a spike in the volatile civilian aircraft component. New factory orders were up 3.8% during the month, after being flat in October. Excluding transportation, durables rose only 0.3%. While the numbers point to continued manufacturing growth, the gains are not as robust as the headline number would indicate.

#### Housing

The severity of the housing crash was revealed to be much worse than initially thought after the National Association of Realtors issued a sweeping downward revision of the past five years of data. Sales of existing homes from 2007 to 2010 were actually 14.3% less than originally reported. Data for November was positive, though, with sales up 4.0%, supply down to 7.0 months and the median price up 2.1% to \$164,200. A separate report showed the pending home sales index was up a strong 7.3% in November, following a 10.4% increase the previous month.

A strong 25.3% jump in the multifamily component helped new housing construction rebound 9.3% in November after slipping 2.9% the previous month, according to the Commerce Department. A 5.7% increase in housing permits was also led by the multifamily component. While the improvement is welcome, the trend towards the multifamily sector is likely driven by the inability of many to purchase homes due to unemployment or tight lending standards. New home sales were reported up 1.6% for November, but it came at the expense of softening median prices which fell 3.8% to \$214,000.

#### World Economy

The European Union met in December for a summit to address the sovereign debt crisis and avoid a collapse of the euro. The 17 members of the eurozone, which use the embattled currency, reached a deal for a new intergovernmental treaty that would deepen the integration of national budgets. Six other EU nations not part of the eurozone supported the deal, but four member nations including Britain refused to back the treaty change. "What is on offer isn't in Britain's interests, so I didn't agree to it," British Prime Minister, David Cameron, said at a briefing. The lack of unanimous support for the new treaty may raise concerns of the EU turning into a divided system, with some countries integrating more than others. The European Central Bank issued a record amount of three-year loans to 523 European banks this month. The loans, totaling €489 billion, will be charged the average benchmark rate over their term – currently 1.0%. The funds come at a time when the sovereign debt crisis has made banks reluctant to lend to each other, driving the cost of credit up. While this does nothing to solve the region's long-term problems, it will help European banks deal with funding constraints and might help the troubled nations of Europe in the near-term if banks use some of the loaned money to buy up their sovereign debt.

## Most asset classes post sharply higher gains.

Fixed Income Current Yields	12/31/11
3 Month U.S. T-bill	0.02%
2 Year U.S. Treasury	0.25%
5 Year U.S. Treasury	0.83%
10 Year U.S. Treasury	1.89%
30 Year U.S. Treasury	2.89%

Total Returns <sup>1</sup>	1 Month	YTD
Barclays U.S. Aggregate	1.10%	7.84%
Barclays U.S. Govt./Credit	1.29%	8.74%
Barclays U.S. Municipal Bond	1.90%	10.70%
Barclays U.S. Corp. High Yield	2.66%	4.98%
Barclays U.S. Long Credit A	3.75%	17.13%
Barclays U.S. Treasury 20+ Year	3.40%	33.84%
Barclays Global Aggregate	0.67%	5.64%
Barclays Emerging Markets	1.44%	6.97%

<sup>1</sup> 1 Month and 12 Month ending 12/31/11.  
Source: U.S. Department of the Treasury, Barclays Capital  
Values reflect most recent data available at time of publication.

### Overview

In a divergence from recent months, both safe-haven and riskier securities advanced considerably for the month. The Barclays U.S. Treasury: 20+ Year index returned a respectable 3.40% for the month, while the high yield index gained 2.66%. Treasuries finished the quarter significantly higher, posting their best three-month performance since the height of the financial crisis in 2008. Separately, the outlook for Europe deteriorated, with yields on Italian 10-year bonds closing above the 7.0% level that preceded bailouts for Greece, Ireland and Portugal; Italy currently has more than \$2 trillion of debt. Data from the last week of the year added to concerns, showing confidence for the European economic outlook slumped to the lowest level in more than two years and unemployment remained at a 13-year high.

In a year marked by a global flight from the eurozone's sovereign debt crisis into safe-haven securities, U.S. government debt returned almost 10% in 2011, as measured by Barclay's U.S. Treasury index, the largest yearly return since 2008. The 30-year bond experienced the biggest gain, with a return of 35%, far outpacing Gold, another favorite safe-haven asset class. Inflation expectations waned, with the spread, or difference in yields between 10-year Treasury notes and similar maturity TIPS, a gauge of trader expectations for increases in consumer prices, falling to 2.09% compared to the 2.34% level seen one year ago.

Meanwhile, the Federal Reserve announced it would begin to release their intentions for short-term interest rates, a move that will likely detail the central bank's internal thinking on where yields are headed. Divulging these details could affect borrowing costs for many consumer and business loans. Fed officials also will indicate when they expect to move the benchmark fed funds rate and will describe their plans for the central bank's \$2.9 trillion balance sheet, which could grow larger if they decide to renew a bond-buying program to spur growth. Analysts feel this should ultimately lead to more informed judgments about the course of Fed policy and less volatility in the markets.

Investment Grade Corporate Spread  
In Basis Points, through December 2011



Source: Merrill Lynch

10-Year Government Bond Rates  
Latest Yield as of 12/31/2011



Source: Bloomberg

### Corporate

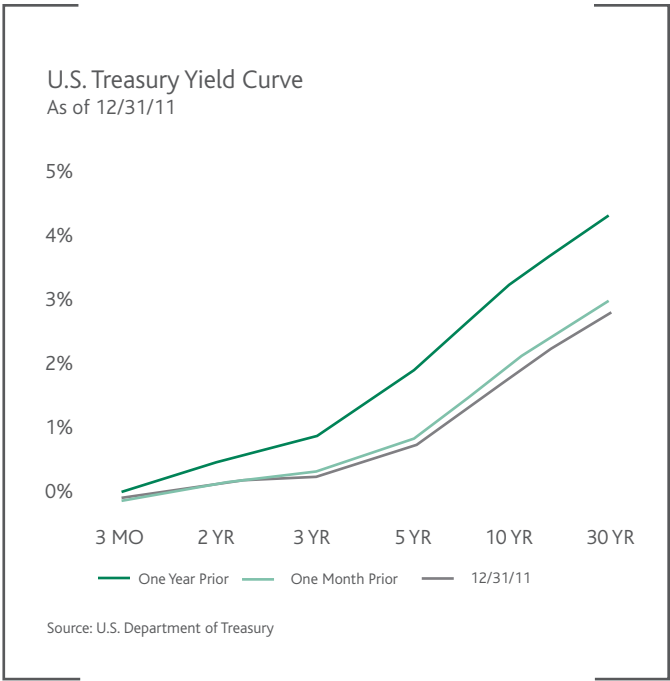
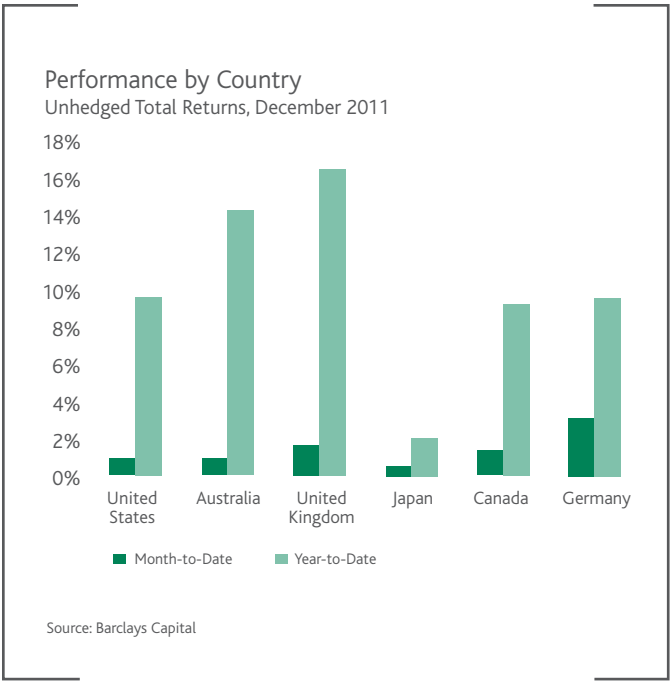
The investment grade corporate sector finished sharply higher gaining 2.14% for the month. For the year, this sector gained 8.15%, capping their best three-year performance ever amid stronger corporate balance sheets and signs of an accelerating U.S. economic recovery. The spread, or extra interest investors demand to own corporate debt rather than Treasuries of similar maturities, widened from 1.80% to 2.72%. Although uncertainty about developments in Europe and interest rate moves may lead to short-term fluctuations in demand, many analysts feel credit spreads can tighten considerably given that fundamentals continue to improve and defaults remain low. At the same time, until the market starts pricing in the possibility of Fed tightening, investors are likely to continue to reach for yield in spread products. Fundamentals remain strong in aggregate, with net leverage returning to pre-2008 levels and consensus expectations for 2012 at reasonable levels. Despite regulatory uncertainties, financials, particularly selective banks, should be favored as they are likely to benefit from still wide spreads along with a likely improvement in the credit cycle.

High yield bonds also rose considerably gaining 2.66% for the month, bringing year-to-date returns to 4.98% as market participants returned to riskier asset classes. Looking ahead, these securities should benefit from lower susceptibility to interest rate moves, historically wide spreads and the expectation that default rates will remain below historical averages in 2012. 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 1.90%, posting gains in eight of the last nine months. Contrary to popular perceptions earlier in the year, this sector posted impressive gains in 2011 amid a variety of bullish fundamentals including a robust rally throughout the broader U.S. Treasury market. At the same time, this strong performance was realized with considerably less volatility than the government debt market.

One constant that appears unlikely to change in 2012 is that the biggest risk to the muni market will continue to be interest rate volatility resulting from swings in the U.S. Treasury market. With regard to other market measures, analysts anticipate a significant rise in supply in 2012 as municipalities take advantage of the current low-rate environment. The shape of the muni yield curve remains steep and is not expected to change, with short-term Fed funds rates anchored near zero until at least mid-2013 and muni buyers focused primarily on maturities out to 15 years. The greatest uncertainty in this market remains the current federal tax-exempt status of municipal bonds. Although this topic faded from headlines in the wake of a failed federal super committee, it is likely to resurface in election year rhetoric. We continue to recommend high quality municipal bonds in the five- to ten-year maturity range for moderate to aggressive investors, and a one- to five-year focus for conservative investors.



**International**

The Barclay's Global Treasury ex-US index gained 0.78% on an unhedged basis, but increased by 1.87% on a local currency basis, consistent with a stronger 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 strong gains in local currencies. Treasury securities from many eurozone peripheral countries increased dramatically with Italy (5.05%), Ireland (6.38%) and Spain (7.12%) leading the pack as investors focused on over-sold sectors. As a whole, the Euro Broad Market Index finished higher by 3.96%, the greatest monthly gain since 2009.

For the year, international bonds took center stage as the prolonged eurozone sovereign debt crisis intensified throughout the year. Entering the year, government solvency questions centered largely on peripheral nations such as Greece, Portugal and Ireland but quickly spread to core EU nations including Italy and Spain. This prompted a European summit in October to discuss a global solution to the crisis. The official statement released by EU leaders focused on an agreement regarding private sector involvement in Greece, the use of European Financial Stability Facility (EFSF) resources for stabilization purposes in primary and secondary bond markets and further reform measures to be taken by Italy and Spain. In December, six major central banks agreed to keep their dollar funding facility open for an extra six months and lower the costs for using these short-term loans. Market strategists feel these developments suggest global policy makers intend to provide as much stimulus as needed to keep the international banking systems solvent.

**Outlook for 2012**

Much of the current market environment looks set to continue into 2012. Events in the euro area are likely to remain significant drivers of demand in the bond markets over the next several months. Peripheral sovereign yields are elevated and volatile, with the extent of support available from the ECB and other authorities uncertain. Although many analysts expect a gradual resolution of the crisis, they also believe the region remains highly vulnerable to swings in sentiment. This leads to an expectation of modest upside in most of the credit markets as the risks priced into the current market slowly dissipate. At current levels, high-quality investment grade corporate bonds still offer investors relatively attractive risk-adjusted expected returns, particularly bank and non-bank financials, industrials and energy. Stronger balance sheets, coupled with declining default rates and attractive valuations will likely create tailwinds for the corporate high yield sector. Meanwhile, demand for tax-exempt municipals will likely remain strong, as tax-exempt supply falls below traditional levels and yields revert to historical averages. Finally, because the recent strong performance of TIPS has driven their yields sharply lower, even negative for maturities out to ten years, we recommend an underweight position in these securities. 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.

## Markets relatively calm in the last month of the year.

Total Return	Month	YTD
Dow Jones Industrial Average	1.58%	8.38%
S&P 500	1.02%	2.11 %
NASDAQ Composite	-0.5%	-0.83%
S&P 100	1.72%	3.18%
S&P 400 MidCap	-0.37%	-1.73%
S&P 600 SmallCap	1.25%	1.02%
Russell 2000	0.66%	-4.18%
MSCI EAFE	-0.94%	-11.73%

<sup>1</sup>Month and YTD total return ending of 12/31/11

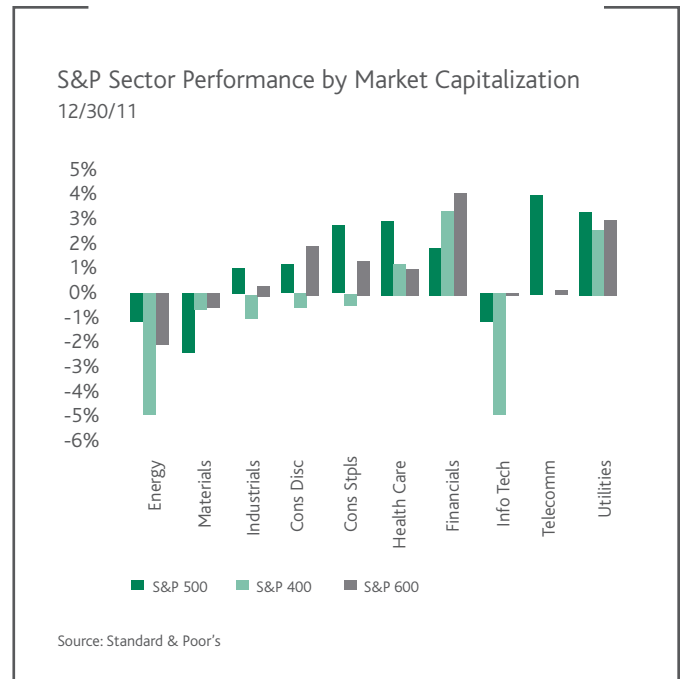
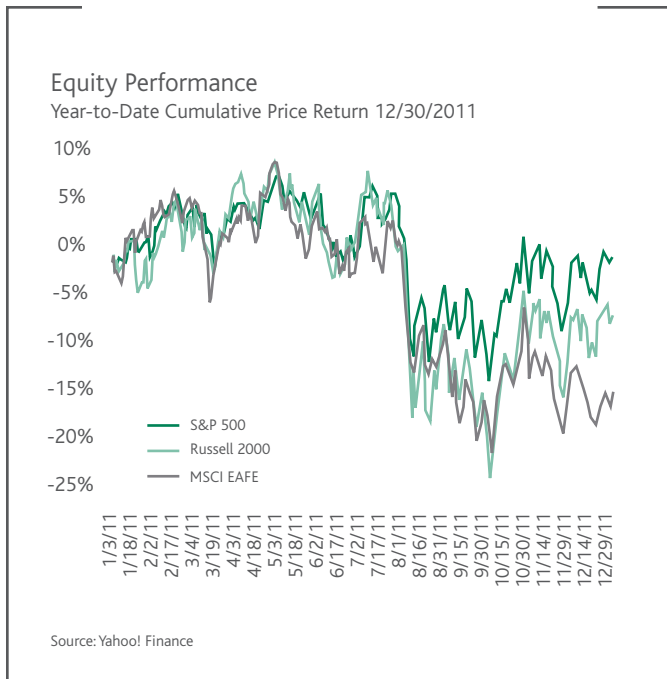
Values reflect most recent data available at the time of publication.  
Source: FactSet, Zephyr StyleAdvisor, Standard & Poor's, Russell Indices, The Wall Street Journal, Reuters, Morgan Stanley Capital International, MarketWatch, Financial Times

### Overview

Markets were mixed again in December as the S&P 500 Index and the Dow Jones Industrial Average closed out the year in positive territory while the NASDAQ Composite Index was slightly negative. After a huge rally the last day of November stocks were strong through the first week of December. Additional headline news and uncertainty about the European debt crisis hit the markets mid-month. Investors bought up shares through the last two weeks, pushing most markets higher.

The Dow Jones Industrial Average had a total return of 1.6% in December. The broader S&P 500 index returned 1.0%, while the technology heavy NASDAQ Composite Index was slightly negative (-0.5%). Stocks were very strong in the fourth quarter with returns for the three major domestic market indices as follows: DJIA (+12.8%), S&P 500 (+11.8%) and NASDAQ (+8.2%). For the full year 2011, total return for the DJIA (+8.4%) outpaced the S&P 500 (+2.1%) and the NASDAQ (-0.8%). Large cap high dividend payers helped the Dow outperform throughout the year.

As investors searched for income in the current low interest rate environment, many focused on high dividend paying stocks. Average dividend yield for the stocks in the Dow are 2.9% compared to only 2.5% in the S&P 500 and 0.8% in the NASDAQ. Stock investors have been rewarded with those companies that currently have high yields as well as those that are forecast to raise their payout ratios in the future. In general, rising payouts demonstrate a company's financial strength and its confidence in the future.



#### Domestic Equity

Defensive large cap sectors such as Utilities (+4.0%), Telecommunication Services (+3.4%), Health Care (+2.9%) and Consumer Staples (+2.8%) had the highest total returns for the month of December. Investors continued to be attracted to high income Utilities stocks such as Next Era Energy (+9.8%) and PG&E Corporation (+7.3%). In Consumer Staples, Altria (MO) announced it will take charges in the fourth quarter related to lawsuit settlements, but the stock still had the highest total return (+4.8%) for the month. Other high dividend yield stocks such as Pepsico (PEP) and Procter & Gamble (PG), also rewarded shareholders with returns over 3.3%. Returns were negative for the Materials (-2.1%) and Energy (-1.0%) sectors. Oil services stocks were down 8% -11% despite higher oil prices. For the full year, S&P sector returns were led by Utilities (+19.9%), Consumer Staples (+14.0%) and Healthcare (+12.7%). Financials (-17.1%), Materials (-9.8%), and Industrials (-0.6%) had the poorest returns.

According to Russell Indices, returns for mid cap stocks were below both large cap and small cap stocks in December. The Russell Midcap Index was flat while the Russell 2000 Index of small cap companies returned 0.7% and the Russell 1000 Index increased 0.9%. Growth performance relative to value was similar across the board, with the growth indices all negative and the value indices all positive for the month. Relative performance for the year was mixed. Large cap growth stocks underperformed value stocks by 115 basis points while mid cap growth stocks underperformed value stocks by 27 bps. However, the returns for small cap growth stocks were 260 bps better than value stocks.

In corporate news, another American corporate icon appeared to be on the verge of collapse. Eastman Kodak restructured its management and sold another non-essential business in an effort to stave off bankruptcy. Several technology companies reported earnings that highlighted continued global economic uncertainty. Oracle missed estimates as customers delayed purchases in the core

software business and revenue in the hardware division declined more than predicted. Texas Instruments cited "broadly lower demand across a wide range of markets, customers and products," with the exception of wireless application processors.

#### International Equity

Volatility continued in international markets in December as it had all year. The broad MSCI EAFE Index of developed markets declined 0.9% in U.S. dollar terms for the month. The MSCI Indices for Germany (-6.6%), Italy (-4.5%) and Greece (-4.2%) were weak again due to continued uncertainty regarding the European debt crisis. Ireland (+7.0%) was granted another 3.9 billion euros in loans from the International Monetary Fund which stated that the country had made progress in reducing the public debt ratio through spending cuts and revenue increases. The MSCI UK Index was flat while Japan returned 0.8% in December. For the full year, total return for the MSCI EAFE Index was -11.7%, with individual country index performance ranging from +14.3% for Ireland to -62.7% for Greece.

The MSCI Emerging Markets Index fell 1.2% in U.S. dollar terms on a total return basis for the month. Russia (-10.6%), India (-6.0%), and Brazil (-2.0%) were among the weakest. China (+2.5%) benefited from several positive economic reports. Inflation in China fell to 4.2%, a fourteen-month low. Policymakers at the three-day Central Economic Work Conference agreed to boost domestic demand and to carefully monitor economic policies in spite of a worsening global outlook. For the full year, total returns for many of the prominent emerging market countries were very weak: India (-37.2%), Brazil (-21.6%), Russia (-19.3%) and China (-18.2%).

## December another volatile month for Alternatives.

Price Change <sup>1</sup>	Month	YTD
Dow Jones UBS Commodity Index	-3.75%	-13.32%
Oil	-1.72%	-3.65%
Copper	-3.90%	-24.41%
Gold	-10.48%	9.63%
NAREIT- All REITS	-3.53%	2.61%
NAREIT-Industrial/Office	-5.07%	-5.33%
NAREIT- Residential	-5.62%	9.01%
S&P Global Property Ex-U.S.	-7.14%	-14.81%
HFRI Emerging Markets Index	-1.33%	-12.91%
HFRI Fund Wtd Comp. Index	-0.18%	-4.83%
HFRI Equity Market Neutral	1.24%	-1.33%
HFRI Event Driven	-0.01%	-2.65%
HFRI Market Defensive	0.08%	-6.41%
HFRI Merger Arbitrage	0.12%	1.64%
HFRI Short Bias	0.64%	0.99%

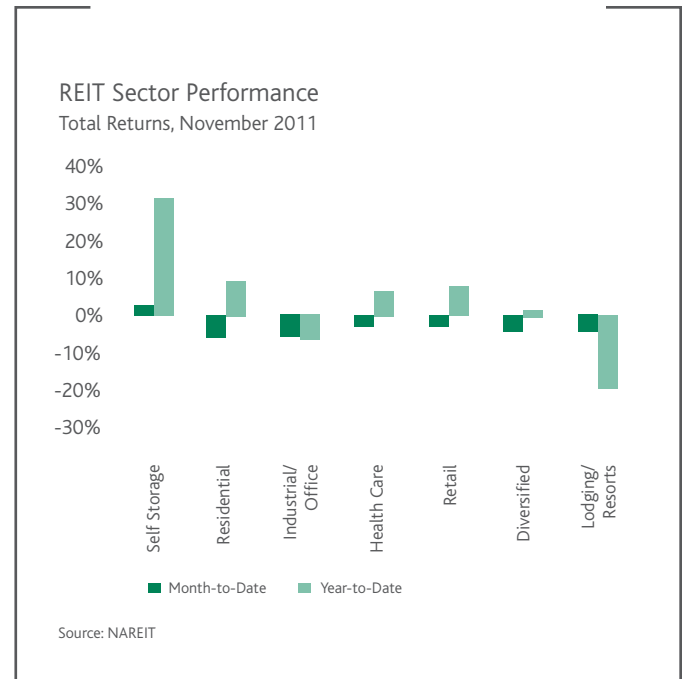
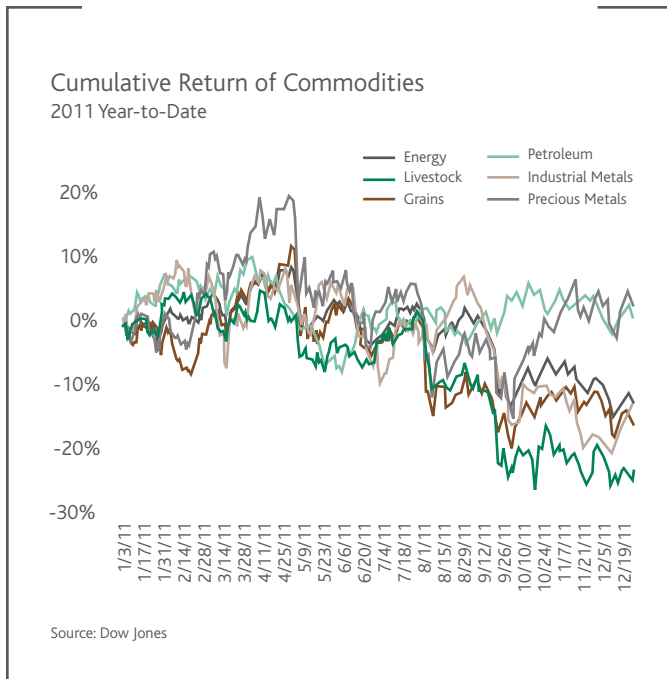
<sup>1</sup>Month and YTD total return ending 12/31/11  
 Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research, Standard and Poor's, wsj.com - Market Data Center, Private Equity Online, FINalternatives. Values reflect most recent data available at time of publication.

### Overview

The Dow Jones UBS Commodity Index lost over 3.5% in December as almost every element dropped slightly; Corn, Soybeans, and Wheat were among the few commodities that were positive in the final month of the year. Hedge Funds continued to struggle through the close of the year. Real Estate was the only bright spot in December, as real estate funds posted positive performance despite market volatility.

### Commodities

December was an especially volatile month for Metals as Gold and Silver lost 9% and 12%, respectively, destroying much of the gain these metals enjoyed throughout 2011. This month wiped out a significant portion of Gold's gains, but it still finished up over 10% for the year. December's drop is likely attributable to the end-of-year rally for the U.S. dollar coupled with the recent unusual correlations between gold and the equity markets. As we continue to struggle with a resolution to the European debt crisis, asset classes that have typically had negative correlations to each other are, instead, moving together – a trend we witnessed in later periods of 2011 between gold and equity markets. Gold fell back to \$1,565 per ounce at year-end, a fairly cheap price relative to 2011 levels. Crude Oil rallied towards the end of the year as U.S. economic indicators showed some improvement in 2011 with positive expectations for 2012. Possible sanctions on Iran pushed prices up in December to just under \$100 per barrel for WTI crude and about \$107 per barrel for Brent Crude. As 2012 begins there is much speculation about the direction of oil prices; analyst estimates are wildly ranging due to several factors facing the markets in the New Year. Iran will be the major story to watch – if the Strait of Hormuz is shut down, which is a possibility with sanctions looming, between 15 and 20 million barrels per day,



or one fifth of the world's oil supply, will be halted or re-routed causing major supply issues around the world and a potential surge in oil prices. Given this prospective outcome, it is likely the countries involved in possible sanctions (mostly the EU) will certainly try to avoid a complete shutdown of the Strait.

#### Real Estate

In an otherwise awful year, real estate funds gained an average 7.6% versus a 2.9% loss for the average stock mutual fund, according to Lipper. Throughout all the volatility and activity in the equity market, real estate investment trusts (REITs) continued to outperform and show their ability to provide a steady income stream. According to the National Association of Real Estate Investment Trusts (NAREIT), the total return of the FTSE NAREIT All Equity REITs Index was up 8.28% for the year and the FTSE NAREIT All REITs Index, which includes both equity and mortgage REITs, was up 7.28%, compared with a 2.11% gain for the S&P 500. The more than 8% gain for equity REITs in 2011 came on top of a 27.95% gain in 2010 and a 27.99% increase in 2009, years in which the S&P 500 gained 15.06% and 26.46%, respectively.

Much of REITs' performance advantage came from the stocks' dividend payouts, since almost all of a REIT's taxable income is paid to shareholders as dividends. The average REIT had a dividend yield of 4.83% last month, says NAREIT. The FTSE NAREIT All Equity REITs Index's total return in 2011 included a share-price return of 4.32%, and the FTSE NAREIT All REITs Index's total return included a share-price return of 2.37%. The dividend yield of the FTSE NAREIT All Equity REITs Index on December 30, 2011 was 3.82% while the dividend yield of the FTSE NAREIT All REITs Index was 4.83%, compared to 2.22% for the S&P 500.

#### Hedge Funds

The overall theme for hedge funds did not change much in the last month of the year as they concluded a challenging 2011 with a decline in December. The HFRI Fund Weighted Composite Index dropped 0.18% for the month, bringing year-to-date performance to -4.8%. According to Hedge Fund Research, the decline for 2011 marks only the third calendar year drop since the index's inception in 1990, but is the second decline in the last four years. Despite the slip in December, hedge funds posted gains of 1.3% in Q4, but were unable to climb out of the hole already buried from record volatility in Q3 which saw a 6.7% drop throughout the industry. Experts attributed the industry's performance in 2011 to "volatile and unpredictable market dynamics, which created a challenging environment for hedge funds throughout the year, with aggregate losses across currency, commodity, Emerging Markets and equity strategies related to the European currency and sovereign debt crisis."

The HFRI Equity Hedge (Total) Index, which measures performance of managers specializing in going long and short stocks, lost 0.66% in December, sending losses for the strategy to about 8% for the year. Diving deeper into strategy specific indices, the HFRI Energy/Basic Materials Index lost 2.98% in December, bringing it to -16.75% for 2011. The HFRI Emerging Markets (Total) Index was also hit hard, slipping 1.33% last month and down 12.91% for the year. However, not all strategy specific indices ended up in the red. The HFRI Fixed Income-Asset Back Index gained 0.97% last month, up 6.70% for the year. Also, the HFRI Short Bias Index, which attempts to capture profits when the markets decline by holding investments that are generally biased to the short side, was positive, up 0.64% last month and 0.99% for 2011.



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