



Tyler Kocon  
 Portfolio Manager  
 Split Rock Private Trading  
 and Wealth Management LLC  
 218.879.3262

December 2011

## Quarterly Newsletter

Happy New Year,

2012 has arrived! With the new year comes new opportunities and new obstacles for us to consider while navigating the equity and fixed-income markets. We are excited as we enter this new trading season and feel that we are ready to take advantage of what the new year has to offer.

There are three early indicators that we pay special attention to around the beginning of each calendar year: the Santa Claus Rally, the first five trading days of January, and the January Barometer – To learn more about what these are and how they are used please read the 2011 recap/2012 preview article below. Historically, in years when these three indicators are positive, the stock market performs well more often than not. As you may have guessed, so far these indicators are suggesting that we may have a good year to look forward to. This doesn't mean that we are ready to go "all-in" or make any drastic allocation decisions, but it does add a little optimism to our outlook of this upcoming year. We will keep a close eye on our economy and continue to monitor everything from unemployment rates to gas prices.

With the presidential election coming up and our economy starting to show slight signs of recovery, we are looking forward to trading in 2012.

-Tyler Kocon

	<i>1/3/2011</i> *open price	<i>12/30/2011</i> *closing price	<i>Total Return</i>
<b>MAJOR INDEXES</b>			
Dow Jones Industrial Average	11,577.43	12,217.56	8.1%
S&P 500 Index	1,257.62	1,257.60	2.1%
NASDAQ Composite	2,676.65	2,605.15	(-1.8%)
Russell 2000	793.54	740.92	(-4.5%)
<b>OTHER INDEXES</b>			
MSCI EAFE Index	58.61	49.53	(-12.3%)
Dow Jones U.S. Real Estate Index	56.29	56.81	5.6%
Barclays Aggregate Bond Index	105.40	110.25	7.7%
SPDR Gold Trust	138.67	151.99	9.6%

\*All information in the above graph was obtained through Kwanti Analytics. Total returns are calculated including dividends.

# Investment Outlook Summary

*(Italics denote changes from last newsletter)*

ASSET CLASS	OUTLOOK	OBSERVATIONS
<b>Cash / Stable Value</b>	<ul style="list-style-type: none"> <li>– Decreased levels of cash</li> </ul>	With cash basically paying nothing, we will continue to maintain our low exposure to cash.
<b>Bonds / Fixed Income</b>	<ul style="list-style-type: none"> <li>– Neutral on bonds</li> <li>– Cautious of U.S. Treasuries</li> <li>– Positive on short-term high-quality corporate debt</li> <li>– Neutral on floating rate bonds</li> <li>– Positive on emerging market bonds</li> </ul>	<p><i>We expect volatility in the bond market over the next 6-12 months; however we see potential opportunity with the larger spread between high-yield bonds and government-issued bonds. With the current low rate of default on high-yield bonds, we will continue to monitor our fixed-income situation and search for potential opportunities.</i></p> <p>With the recent downgrade of U.S. government debt and the run-up in treasuries due to the “flight to safety” effect, we feel that treasuries are an overvalued asset.</p> <p>The default risk associated with high-grade corporate debt is low at this time. Short-term corporate debt is also less prone to interest rate risk than Treasuries.</p> <p>Even though the Fed said that they won’t raise interest rates until 2013, and corporate fundamentals are still strong, we don’t feel there is enough opportunity at this time.</p> <p>As emerging markets strengthen, their bonds become more attractive and are hedged against the U.S. Dollar as well.</p>
<b>Stocks / Equities</b>	<ul style="list-style-type: none"> <li>– <i>Increasingly optimistic on stocks for Q1</i></li> <li>– Positive on dividend-paying stocks</li> <li>– Positive on Consumer Staples</li> <li>– <i>Neutral on Infrastructure-related stocks</i></li> <li>– Negative on alternative energy</li> <li>– Real estate stocks show opportunities</li> <li>– International &amp; Multinational stocks show value</li> </ul>	<p><i>Based on fundamental and technical analysis we believe that equities will perform exceedingly well during Q1 and into the future. Early performance indicators suggest that 2012 will be a positive year, which has been fortified by the rapid start to 2012.</i></p> <p>If the market takes a pause, high-quality dividend-paying stocks present opportunities to get paid while we wait for the market to fully recover.</p> <p><i>We continue to see solid performance and strength from the consumer staples sector. The distinction between business cycle phases indicates economic recovery. We believe a consumer trend from low to mid-level products will bolster consumer staples performance.</i></p> <p><i>We believe that the emergence of some signs of economic growth demonstrate potential for infrastructure. However, we would prefer to see several more quarters of positive economic data before making any rash portfolio allocation decisions.</i></p> <p><i>We are currently negative on this area of the market. We feel that the high price of implementation continues to outweigh the savings benefits of alternative energy.</i></p> <p><i>We feel there are long-term opportunities in multi-unit housing developments due to the recent foreclosure epidemic. With many people unable to secure funding for new homes due to financial issues, the possibility of renting looks more attractive.</i></p> <p><i>International and multinational stocks are a good long-term hedge against the U.S. Dollar and the stock market. We will continue to expose our portfolios to international economies by utilizing multi-national corporations.</i></p>
<b>Alternate</b>	<ul style="list-style-type: none"> <li>– <i>Negative on foreign currencies</i></li> <li>– Positive on energy trusts and Master Limited Partnerships</li> <li>– Positive on oil</li> <li>– Positive on natural gas</li> <li>– Positive on Gold</li> </ul>	<p><i>Due to unrest in the Middle East, record high government debt worldwide, and economic unrest throughout Europe, we have downgraded our outlook on foreign currencies. We considered the declining strength of the Euro, and the relative strength gained by the dollar to formulate this outlook.</i></p> <p>Because of the high dividends energy trusts tend to pay, they are a good way to help alleviate some of the stock market’s volatility.</p> <p>With the demand for autos in emerging markets increasing, we feel that the demand for oil will continue to rise. <i>We see an exceptional amount of growth potential in U.S. Oil shale plays; especially in the Bakken, Haynesville, Barnett, and other oil-based shale areas.</i></p> <p>It’s an energy source that is highly abundant in the U.S. and can be looked at as a way to help decrease our dependence on Middle Eastern oil. <i>In the short-term, an unseasonably warm winter will not spike prices like previous years. However, we feel that the latter half of 2012 will see more widespread embrace for natural gas among political circles.</i></p> <p>Long-term, we are positive on gold due to Middle East turmoil and inflation fears and large U.S. and worldwide government debt.</p>

INFORMATION/MATERIAL IS PRESENTED FOR EDUCATIONAL PURPOSES ONLY. NONE OF OUR PUBLICATIONS (INCLUDING THIS ONE) IS MEANT AS INVESTMENT, LEGAL, TAX, OR ANY ADVICE OF ANY MANNER; PAST PERFORMANCE ISN’T INDICATIVE OF FUTURE RESULTS; PLEASE CONSULT A QUALIFIED INVESTMENT ADVISOR AND/OR TAX PROFESSIONAL BEFORE IMPLEMENTING ANY STRATEGIES DISCUSSED; THE INFORMATION IN THIS NEWSLETTER IS PROVIDED “AS IS”. SPLIT ROCK PRIVATE TRADING AND WEALTH MANAGEMENT LLC DOES NOT WARRANT THE ACCURACY OF THE MATERIALS PROVIDED HEREIN. THE ABOVE INFORMATION IS PROVIDED AS GENERAL INFORMATION AND MAY NOT APPLY TO ANY ONE CLIENT’S SPECIFIC PORTFOLIO OR INVESTMENT SITUATION.

---

**ARTICLE PREPARED BY SPLIT ROCK PRIVATE TRADING**  
INFORMATION PRESENTED FOR EDUCATIONAL PURPOSES ONLY.  
PUBLICATION NOT MEANT AS INVESTMENT, LEGAL, TAX, OR ANY OTHER  
ADVICE OF ANY MANNER. PAST PERFORMANCE IS NOT INDICATIVE OF  
FUTURE RESULTS. INFORMATION PROVIDED "AS IS". SPLIT ROCK  
PRIVATE TRADING DOES NOT WARRANT THE ACCURACY OF THE  
MATERIALS PROVIDED HEREIN.

## 2011 Recap

Overall, 2011 turned out to be a tumultuous year for financial industries, both domestic and abroad. Middle Eastern unrest, the European debt crisis, political gridlock, U.S debt woes, etc. – These were just some of the various tribulations that the world faced last year. As a firm [Split Rock Private Trading & Wealth Management] we believe that our equity positions held up considerably well in 2011. Our defensive nature positioned us very well to handle these uncertain and unpredictable times. While dealing with such volatile markets, we definitely placed an emphasis on risk-management and wealth preservation in a majority of our portfolios.

When choosing equities in 2011, we sought after resilient, high dividend-paying companies that continuously showed strength even in troubled markets. As last year progressed, our defensive-minded investments helped sustain healthy growth



while keeping risk in check. Consumer Staples continued to be one of our favorite sectors to invest in and we maintain a positive outlook on staples heading into 2012.

In regard to our fixed-income portfolios, we observed fairly average returns for the year. We believed, similar to the beliefs of many industry professionals around the globe, that the downgrade of U.S. debt spelled disaster for government issued bonds. What practically no-one saw coming was that U.S. government issued bonds were actually one of the best performing asset classes of the year. In hindsight, we're still not sure we could have guessed any different. We have confidence in our fixed-income holdings and felt that we were situated well all last year. The fact that government bonds outperformed all year, while most investors thought they would struggle, is mostly what led to the average returns we witnessed in our fixed-income portfolios.

Looking back, 2011 was quite the year. Markets seemed to exhibit an unprecedented amount of volatility. It would be hard to count how many times the market switched from positive to negative returns on the year. Our ability to remain tactical definitely added security within our portfolios and helped dampen the bumpy ride.

## 2012 Preview

To quickly sum up our outlook for 2012, we are *cautiously optimistic* on both equity and fixed-income investments. Early performance indicators have demonstrated a slight level of financial recovery. However, we would like to see more convincing and sustained performance numbers that would indicate a full-fledged economic recovery before making any major allocation decisions.

The recent lowering of the unemployment rate, coupled with leading economic indicators, signifies that 2012 could be a positive year for the stock market. Historical data shows that having a



positive “Santa Clause rally” (positive returns during the trading week

from Christmas to New Year’s Day), a strong first 5 days of trading in January, and a “January Barometer” (A theory stating that the movement of the S&P 500 during the month of January sets the stock market’s direction for the year – source:

Investopedia) that suggests a positive year is to follow, tend to lead to positive years in the stock market. This year, we did experience a slight Santa Claus rally, the first five days of January were positive, and so far this year the S&P 500 has shown investors some nice returns. These

indicators suggest that 2012 could be a healthy year for the stock market. Also, the market generally performs positively in years in which a presidential election is to take place.

Even with many indicators pointing towards a good year in the markets, we are still not necessarily convinced. In order to completely support some sort of economic recovery for 2012, we would like to see a continued downtrend in unemployment numbers combined with a lowering of gas prices at the pump. Split Rock has maintained that gas pricing can often act as a “hidden tax” on consumers. The relative necessity of fueling our vehicles can turn us into victims to the prices seen at gas stations; and as such, any increase in these prices would take money directly out of the pockets of consumers and leave them with very little alternatives. We feel reductions in both of these rates (unemployment and gas prices) will demonstrate and lead to a more significant “real” stimulus for the American economy. Until real positive gains can be fortified, we will continue with our defensive positioning as a firm.



The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

The **S & P 500** is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

The **NASDAQ Composite** is a computerized system that facilitates trading and provides price quotations on more than 5,000 of the more actively traded over the counter stocks.

The **Russell 2000** index is an index measuring the performance of the 2,000 smallest companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small cap stocks in the United States.

The **MSCI EAFE Index** is an index created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia. This international index has been in existence for more than 30 years.

The **iShares Dow Jones U.S. Real Estate Index** seeks investment results that correspond generally to the price and yield performance of the Dow Jones U.S. Real Estate Index. The fund invests at least 90% of assets in securities of the underlying index and in depositary receipts representing securities of the index. The underlying index measures the performance of the real estate sector of the U.S. equity market. It includes companies in the following industry groups: real estate holding and development and real estate investment trusts ("REITs").

The **Barclays Capital Aggregate Bond Index** is a *market capitalization-weighted* index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented. Municipal bonds and Treasury Inflation-Protected Securities are excluded, due to tax treatment issues. The index includes Treasury securities, Government agency bonds, Mortgage-backed bonds, corporate bonds, and a small amount of foreign bonds traded in the U.S.

**SPDR Gold Shares** (also known as **SPDR Gold Trust**) is the largest gold exchange-traded product and second-largest exchange-traded fund in the world by market capitalization. This ETF denotes a share of gold bullion. SPDR Gold Shares are designed to track the price of a tenth of an ounce of gold. If the share price differs from the gold market price, the fund's manager exchanges blocks of 100,000 shares for 10,000 ounces of gold. The possibility of such exchanges keeps the ETF price roughly in line with the gold price, although the prices can diverge during each day. As of October 30, 2010, the trust had 41,574,486 ounces of gold in its custody, representing an asset value of \$55,972,246,241. SPDR Gold Shares is one of the top ten largest holders of gold in the world, behind France and ahead of China.

*The performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's holdings, when sold or redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted.*