

insights

December 2011

4th Quarter Ends with Stronger Economic Data & Consumer Confidence

by Skip Dittmann, Vice President

Interest rates, whether they pertain to an Italian debt auction or the latest 30-year mortgage rate under 4%, were the headline news as the year drew to a close. America's national debt is growing, its triple-A credit rating stripped by one major firm, and some strategists are predicting that the country is destined to be the next Greece, whose 10-year rate hovers around 10%. Despite this, U.S. borrowing costs have never been lower, and

the rally in Treasury securities has been stunning. The total return on 10-year Treasury notes through year-end was over 17%, and the 30-year bond a remarkable 35%. This is compared to the S&P 500, which ended the year just about where it started last January.



European Debt Crisis

The European Union's (EU) meeting on December 10th helped address the serious issues they are facing, but they still lack a large enough stability fund and support from the European Central Bank (ECB) to ease concern from further stress on country financing. Great Britain was the only country of 27

countries not to agree to a pact that would subject member nations' budgets to greater oversight with stiff penalties imposed by the EU. Taking the gradualist approach once again imposes additional economic and financial costs compared to an immediate comprehensive solution. It means the crisis will continue at various levels of intensity throughout 2012 and probably beyond if further action is not taken. The ECB will continue to be the key to support illiquid, but inherently solvent entities, whether they are countries or banks. Spain, France, and Italy alone require close to 650 billion in new European funding in 2012, and the results of each debt auction will be closely watched as to the size and cost of the auctions.

U.S. Economy

This was supposed to be a relatively good year for the U.S. economy. There was fiscal stimulus in the form of a payroll-tax cut. There was monetary stimulus from the Federal Reserve under the guise of quantitative easing, and there appeared to be the promise of substantial stock market gains in the third year of a presidential term.

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What's New

Girard Partners Now Offers Insurance Services

In recent years, it became apparent that in order for Girard Partners to become a complete wealth management firm, we would need to fill a missing component to our service offering.

Edward A. Piccione, CLTC has recently joined Girard Partners to fill an insurance void in our service offerings. Ed grew up in Northeast Philadelphia, graduated from Villanova University, and is married with three sons. Ed previously worked at Acorn Financial Services, an independent office of the John Hancock Financial Network. He has over 20 years of insurance and financial services experience.

The addition of Ed to our team will now allow us to offer you Disability and Long-term Care insurance, and enhance our Estate Preservation Strategies and Business Insurance Planning. **Contact your portfolio manager today to arrange a meeting.**

Welcome Ryan Roy

Additionally, **Ryan Roy** joined Girard Partners in the area of business development. Ryan worked for TD Ameritrade for almost 10 years as an Investment Consultant and during that tenure worked closely with Girard Partners as part of TD Ameritrade's Advisor Direct program. Ryan's track record of hard work, integrity, and dedication in helping clients reach their financial goals is a welcome addition to our team. Ryan is very active in his community and lives in the Harrisburg, Pennsylvania area with his wife and three daughters.

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The consensus now is for the U.S. economy to finish 2011 with fourth quarter growth over 3%, compared with the 1.8% in the third quarter. Housing and jobs remain the critical keys to further growth. While we have seen the weekly jobless claims come down from over 400,000, predictions call for the economy to add an average of 123,000 jobs per month. This number just keeps pace with the population growth. Structural challenges, including a mismatch between skills of the many unemployed and the skills demanded by companies, remain a primary concern. This means the unemployment rate will probably remain over 8% through the November elections. Foreclosures in the housing market will continue to hold down prices, sales, and new construction. The supply of homes being foreclosed on or where owners are three or more month's delinquent stood at 3.4 million in October versus 1.5 million at the beginning of the recession. About 22% of homeowners with a mortgage owe more on their homes than they are worth. Those people are not likely to move to find a job or buy another home. Eventually the housing market can recover as demand catches up to supply, and when it does, it will contribute to the country's economic prospects.

Corporate balance sheets remain strong and profits robust with year-over-year earnings growth of 15% in the third quarter. Manufacturing and industrial production continue to contribute to economic growth with over 60% of industries reporting gains over the last six months. Inflation pressures for consumers and producers have continued to abate with the year-over-year core increase just over 2%. Consumer activity has shown reasonable strength over the holiday shopping season. Same-store sales advanced 4% for the year ending in November and online holiday sales expanded an impressive 15% through mid-December. With the pace of spending steady and inflation pressures declining, recent consumer strength has the potential to persist as long as employment gains continue. Consumer confidence rose to 64.5 in December and consumers are more comfortable with their current situation and optimistic about the future.

Outlook for the Economy in 2012

The U.S. continues to suffer from the long-lasting effects of a burst credit bubble, an oil price surge caused by instability in the Middle East, and a supply-chain disruption following Japan's earthquake. Weakening economies abroad have kept commodity prices down and limited inflation in the U.S. With mortgage rates low and consumer finances improving, home prices should start to turn up. Businesses are flush with cash and have the ability to expand and hire. If health care costs and tax reform are addressed, a solid private sector domestic expansion may be taking hold and could be the major upside surprise in 2012.

Economists remain concerned about future economic growth and are forecasting growth of 1.75% for the first half of 2012. The possible default by a European government, collapse of a big bank, or the abrupt disintegration of the euro all weigh on the market. Washington also continues to lack leadership and address the issue of the deficit and entitlement reform. Prolonged uncertainty and further erosion in confidence in the political system will discourage businesses from hiring and consumers from spending. The Federal government, in addition to states and local municipalities, are also faced with budget cuts and layoffs, which will subtract from growth.

The emerging consensus assumes the worst outcome in Europe is avoided and the U.S. economy continues to recover in 2012. The election cycle could induce both parties to agree to a meaningful compromise on fiscal policy and introduce a jobs program. We believe China, while clearly in a slowdown mode, will have a

smooth landing. Emerging markets are attractive compared to foreign-developed countries due to positive demographics, strong public and private balance sheets, and a declining reliance on an export-led growth model. We continue to favor large cap domestic stocks with attractive dividends given the concern for weak fundamentals in global developed markets. The world we live in today lies in the hands of the leadership in Brussels, Beijing, and Washington, and the policy decisions that they will make. This suggests that global markets will continue to have high correlations and potential volatile market swings.



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