



## Letter from the Chief Portfolio Manager

The continuing stock volatility brought on by Europe's debt mess is forcing investors to make almost impossible choices.

The mix of political uncertainty with the threat of recession, both in the U.S. and Europe, leaves investors in a terrible position. Investors have to understand that this is an environment where there is no high-return, low-risk investment. For a high return, you must make a risky bet on European and U.S. politics. To avoid that risk, you need to accept bond or money-market yields that often don't even offset inflation. Right now stocks, particularly dividend payers,

look more attractive than bonds-especially if down the road there's resurgent inflation, which whittles away fixed-income returns.

Remember that you'll need to own some stocks in order to increase your assets enough to meet future needs. It wouldn't take much for equities as a class to post better returns than they have in recent years. In the so-called lost decade from 2000 through 2009, the return on the standard and Poor's 500-stock index, including dividends, averaged a negative 0.9% per year, according to investment researcher Morningstar Inc.

We here at Anchor Bay



Scott Spiering  
Founder & CEO

acquire stocks we think will ride out a storm; those include stocks of companies with a long history of rising dividends, whose quarterly payments partly offset the risk of price declines.

Remember, dividends pay. What is important is high

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## Investment Review



Jonathan L. Chatfield, CFA  
Portfolio Manager

### Equities Recover in the Fourth Quarter

The fourth quarter provided some solace to investors, as stock markets recovered from big losses earlier in the year. The

European debt crisis continued to churn but investors became hopeful that efforts by central banks, coupled with announced austerity measures in Greece, Italy, Spain and other EU members, would curtail default risk and set those economies on firmer footing. Foreign interest rates spiked, with Italy offering nearly 8% at a 3-year bond auction in late November, but since then have recovered as investor confidence was gradually restored. At auction in January, 3-year bonds sold at a 4.83% yield.

As the markets digested the events taking place overseas they also observed indications of improvement in the U.S. economy. The unemployment rate dropped to 8.6% and manufacturing expanded. Against this backdrop U.S. stocks posted gains. The S&P 500 index was up over 11% in the quarter and the broader Russell 3000 was up over 12%. Small cap stocks as measured by the Russell 2000 were up over 15%. For the year, U.S. stocks erased their losses, with the S&P 500 closing out the

year flat. Overseas markets disappointed, with the turmoil in Europe leading to a 12% decline in developed markets (the Morgan Stanley EAFE index) and an 18% de-

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### Market Index Returns YTD 12/31/2011

Dow Jones Industrials	+5.5%
S&P 500	0.0%
Russell 2000	-4.2%
MSCI EAFE	-12.1%
MSCI US REIT	-5.0%
S&P/GS Commodity Idx	-1.2%
BarCap US Aggregate Bd	+7.8%

*“What is important is high current income that is sustainable, as well as growth in that yield and the financial strength of the companies that provide it.”*

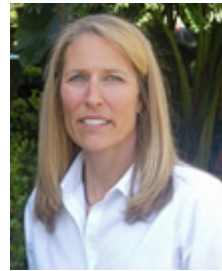
### **Letter from the Chief Portfolio Manager** *(continued)*

current income that is sustainable, as well as growth in that yield and the financial strength of the companies that provide it. We are searching for stocks that offer high dividend yields that are well supported by the cash levels and cash flow of the companies.

### **Investment Review** *(continued)*

cline in emerging markets. Going forward, we are cautiously optimistic that the U.S. economy will continue to expand at a muted pace. Corporations continue to generate solid earnings, have record amounts of cash on their balance sheets, and are increasing dividends. S&P reported 1,953 companies increased their dividends in 2011 compared to 1,729 in 2010. Only 101 companies decreased their dividends, compared to 145 in 2010. As the election cycle plays out, we are hopeful that expectations of a pro-growth economic environment will emerge, inspiring corporations to open their wallets and begin spending their cash on investment and hiring, resulting in a virtuous cycle for the economy and equities.

We wish you a happy and prosperous new year, and will keep you posted as events unfold over the course of the year ahead.



Dená Baker  
Financial Planning

### **A Fresh Start in 2012**

Each new year brings a chance for a fresh start and an opportunity to improve your financial picture. Looking back at last year can help you make some positive changes this year.

In 2011, the economic slowdown took a toll on retirement plans. While the economy and its impact on financial markets may be out of your hands, you can still look for ways to increase your retirement savings. If you participate in an employer-sponsored retirement plan such as a 401K, be sure to contribute the maximum amount you can, especially if your employer matches some or all of your contribution. Don't leave any money on the table.

If you are self-employed, or contribute to a traditional IRA or ROTH IRA, you can have your contributions sent directly to your retirement account. That way you won't be tempted to skip a payment or two.

In 2011, market volatility was the norm. While you

can't control the market, you can control your response to the market. Is it time to make changes to or update your retirement plan? Have your investment goals, time horizon, or risk tolerance changed? Are you taking advantage of available investment products or offerings? Periodically reviewing your financial plan can help you stay on track.

### **Reminder**

**Contact Anchor Bay regarding any change in your financial condition.**

Ongoing communication between the client and the adviser is critical to the effective management of your assets. It is imperative that Anchor Bay is up to date regarding your financial condition. Please keep us informed of any changes in your financial goals, concerns, or time horizon so that we may incorporate them into your financial plan and make the appropriate adjustments to your investment portfolio. Such changes might include the purchase or sale of a house, any large expenditure you may be planning for which we need to provide liquidity, or any change in your tolerance for risk which may require adjustment to a more conservative portfolio.