

Nauset Market Commentary Fourth Quarter 2011

Market Performance Recap: Stocks Recover as Eurozone Fears Subside

As eurozone debt crisis fears abated in October, stocks staged a sharp rally. This led to a +12.0% Q4 gain in the Dow Jones US Total Market Index, and a flat 2011 return of only +0.5%. International stocks were only slightly higher up +2.9% for Q4, but finished the year down -14.8% as measured by the MSCI EAFE Index. Bond prices were mostly flat for the quarter, and the Barclays Intermediate Gov/Credit Index finished 2011 with a solid +5.8 gain.

Annual Stock Outlook: Tough Headwinds Create Caution

Our annual outlook for US stocks focuses on the three factors that we believe determine investment attractiveness: corporate profits, interest rates, and valuation levels. This year's outlook is particularly difficult given the high market uncertainty.

- Corporate Profits – After several years of stellar profits, we believe overall profit gains will be at or slightly below historic averages of 10% due to slow global growth; a neutral to slight negative for stocks.
- Interest Rates – We expect interest rates to remain low for the year with some risk for an uptick in the latter half if eurozone problems abate and US economic growth exceeds 3%. This is a slight positive for stocks.
- Market Valuation – We see the market as fairly valued given global risk factors, which is a neutral for the market. How those risk factors – eurozone debt, sluggish global growth, US housing and election year uncertainty – evolve and unfold this year may hinder or help valuations.

In summary, we are neutral to cautiously positive on stocks given recent economic momentum. We will closely monitor the aforementioned myriad of global and domestic fear factors and adjust accordingly. Our current investment strategy is slightly defensive with emphasis on high quality and high dividend US stocks, combined with a mix of yield securities, including floating rate and high yield bonds, and multi-sector bond funds.

Market Performance Index	% Change for Periods Ended 12/31/2011			
	Fourth Quarter	2011	3-Year Annualized	5-Year Annualized
Dow Jones US Total Mkt.	11.97	0.52	15.24	0.28
S&P 500	11.82	2.11	14.11	-0.25
MSCI EAFE – Non-US	2.86	-14.82	4.52	-7.40
BarCap Intermediate Gov't/Credit Bond	0.84	5.80	5.65	5.88
BarCap Municipal Bond	2.12	10.70	8.57	5.22
3-Month T-Bill	0.01	0.08	0.12	1.36