



Fear vs. Euphoria

“The only thing we have to fear is fear itself.” While we all know this quote from Franklin D. Roosevelt, I recently began telling clients and co-workers that I am concerned because suddenly the majority of investors no longer seem to be scared, including yours truly. While there are many positives for the New Year, stock market profits are never earned without confronting volatility and fear. Typically the time to buy is when everyone is freighted and the time to sell is when everyone is euphoric. This rule was once again correct, as mutual fund investors pulled \$115 billion out of domestic stock mutual funds while pouring an amazing \$649 billion into fixed income mutual funds since the March 2009 bottom (through 2010). While optimistic about the stock market, I am equally pessimistic about the bond market in the years ahead. The bad timing should not be surprising as it mirrors the long term poor timing of many investors as concluded by the research firm Dalbar. Their research showed that from 1990 through 2009, the 20 year annual return for the average mutual fund investor was a scant 2.3% while the S&P 500 returned 8.3%. Does the lack of fear constitute a euphoric top? Probably not, but it may warrant more caution.

I understand the stock drivers for 2010 and hopefully the future. Equities move higher as earnings and dividends move higher in relationship to their relative value. Earnings are expected to grow 12-14% in 2011. If these estimates prove to be correct, a move of 9.02% in the S&P 500 Index seems rather attainable (see Pg. 2 for strategists average estimates). In addition, the S&P 500 Index is trading at the low end of its historical P/E multiple, a major positive in a rising environment for earnings. You might ask yourself, at current levels, what other investments are more attractive than the U.S. Stock Market? With interest rates near 50 year lows, both long and short-term bonds seem to be very problematic as an investment vehicle. The average spread between the S&P 500 Index quarterly yield and the 10-yr treasury over the last 20 years, is approximately -0.20%. Currently, the spread is +3.30%, one of the highest spreads in recent history. One must understand, treasury yields are guaranteed while stock dividends are not. It is important to note current valuations confirm there is still fear of stocks, not everyone is bullish.

Areas to watch in 2011 are the value of the dollar, spending in Congress, inflation, oil prices, a negative outlook for the bond market and municipal debt among others. That being said, skepticism among equity investors, not to mention the wide estimate of 2011 growth from professionals, is understandable. Don't believe the only thing to fear is fear. Investors must be diligent to control their risk, control their emotions and use at least some hedging strategies. These beliefs help one maintain a long term investment profile even when fear or euphoria cloud their prospective.

J. Scott Miller

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REMINDER

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2011 S&P Forecasts

Firm	Strategist	S&P500 Estimate	Percentage Change
Barclays	Barry Knapp	1420	12.83%
Credit Suisse	Andrew Garthwaite	1350	7.27%
Citigroup	Tobias Levkovich	1300	3.30%
Goldman Sachs	David Kostin	1450	15.22%
Deutsche Bank	Binky Chadha	1550	23.16%
Bank of America	David Bianco	1400	11.24%
JPMorgan	Thomas Lee	1425	13.23%
Oppenheimer	Brian Belski	1325	5.28%
Bank of America	Ethan Harris	1400	11.24%
Credit Suisse	Douglas Cliggott	1250	-0.68%
Morgan Stanley	Henry McVey	1362.5	8.26%
UBS	Jonathan Golub	1325	5.28%
HSBC	Garry Evans	1320	4.89%
Bank of Montreal	Ben Joyce	1300	3.30%
Putnam	Jeff Knight	1350	7.27%
Wells Capital Mgmt.	James Paulsen	1425	13.23%
AVERAGE		1372.03	9.02%

General Notes

- A December 10 report showed US consumer confidence rose to a 6 month high and the trade deficit narrowed more than economists estimated as exports rose to the highest level since 2008.
- As the fed plans to pump 600 billion into the bond market, treasuries have sold off raising 10 year notes from 2.49% to 3.3%.
- Household debt reduced by \$1 trillion to \$11.5 trillion. Household debt as a percent of disposable income has eased from 19% to 17% near its 30 year average.
- In the 3rd quarter consumer spending grew 2.8% the best since 2006.
- The private sector has added 1.1 million jobs in 11 months.
- S&P500 earnings have hit \$85 a share up from \$61 in 2009 and just below the peak of \$88 in 2006.
- Since the market low in March of 2009 investors pulled \$111 billion from US stock mutual funds and plowed more than \$609 billion into fixed income funds.
- US CPI grew just 1.1% this past year compared to China's 5.1%.

Notable Quotes

"We expect S&P 500 firms will increase spending in all categories with the fastest growth in acquisitions and share repurchases."

David Kostin, Goldman Sachs

"Next year looks good with a chance of great for equities. You really get to good based on earnings alone. We're entering into a self sustained recovery and there's a very accommodative backdrop being provided by the Fed."

Jonathan Golub, UBS

"Equities look cheap relative to other asset classes."

Andrew Garthwaite, Credit Suisse

Wealth Management Tool on www.bluebellpwm.com

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- The ability to view all your financial assets and liabilities in one place
- Alerts to let us know of important changes in your accounts
- Online vault capable for storing important documents, such as wills, trust documents, insurance documents, etc.

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Quotes after using Wealth 360:

“This is worth its weight in Gold.”

Fred S., PA

“I can’t believe how easy it is for me to keep my records now, thank you”

Nancy M., NJ

“When my mother passed away, as much as she had tried to keep record, the estate process was very expensive, and a pain in the neck; I wish she had your system available to her.”

Mike W., PA

“Once I took the time to get everything uploaded and linked, it proved to be a valuable resource.”

Barbara S., FL

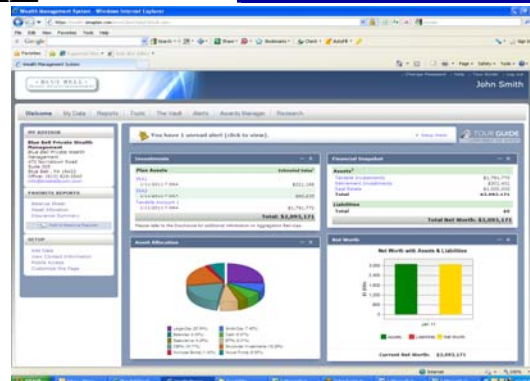


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BBPWM in the News



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“Structured products give advisers the opportunity to say something different to a client.”

- Scott Miller, *Investment News* November 14, 2010, discussing the advantages of structured products.

“There's just not much left over to buy the upside, because rates are so low. People always need to understand what they're giving up.”

- Scott Miller, *Investment News* November 14, 2010, discussing the need for full disclosure in structured products.

“A lot of ETFs have grown to the point where the options available on them are efficient and liquid.”

- Scott Miller, Jr., *Investment News* November 21, 2010, on ETFs and options available for them.

Tax Season Reminder

Tax season may not be right around the corner, but it might roll around sooner than you expect. It is a good time to start gathering any documents you may need, and start getting estimates of your potential gains and losses, as well as any expected payments.

You will not begin to receive any year-end tax documents until mid-February, but please be on the look out for tax documents from your current custodian, Schwab Institutional, as well as other financial institutions where you may have investments. Another suggestion, although this will require paying a fee, is to hire a professional tax preparer. This will reduce the chances of errors and oversights that are most commonly caused by lack of specific tax knowledge in self-preparing returns.

Finally, we work hard to continuously maintain relationships with our clients' accountants. Come tax season, it may lessen the burden to have us directly speak with your accountant and to clear up any confusion. If we do not have your accountants' information on file, please call us so that we can update our databases and receive permission to speak to your accountant on your behalf.

Last Minute IRA Contributions!

For 2010, the maximum contribution allowed for both Traditional and Roth IRAs remains at \$5,000 if you are under age 50, or \$6,000 if you are age 50 or older. You have until April 18th, 2011 to make your 2010 contribution. Talk to your children about the benefits of starting an IRA.

If you mail a check to us, please make the check payable to “Charles Schwab & Co, Inc.” with your IRA account number written on the check along with the year in which the contribution is intended.

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