



November 2011 ECONOMIC REPORT

December 8, 2011

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President



US Economy Continues to Improve

Continued tensions in Europe and heightened fears of a global economic slowdown made November another tumultuous month. Domestically, our economic data was more resilient than expected and consumers were spending, despite high unemployment and concerns about the outlook.

We're Spending More & Saving Less: The health of consumers has been of particular importance in recent months, especially as we enter the all-important holiday shopping season. After several months of disappointing income growth, we learned that personal income rose 0.4% in October. Personal consumption expenditures were up 0.7% in September and 0.1% in October. To some extent, the uptick in spending came at the expense of personal savings, which now stands at 3.5%. Sustainable spending cannot continue at the expense of savings; it will instead require more consistent income growth.

Unemployment Rate - A Long Way To Go, But: Labor markets showed modest improvement in November, with nonfarm payrolls growing 120,000. Private sector payrolls increased 140,000 and the unemployment rate dropped to 8.6%, the lowest level in more than two years. While job growth in November was better than the prior month, it is still well below the level needed to sufficiently return the labor markets to a healthier place.

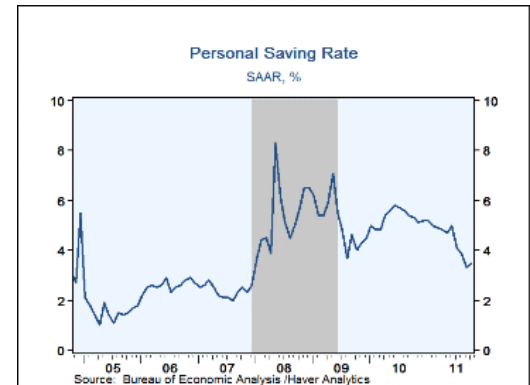
The domestic economy continues to perform well in spite of overarching macroeconomic concerns emanating from Europe. Unfortunately, a shock from Europe may dramatically affect the domestic economy and bears close watching. In the meantime, growth is better than expected, eliciting hope that 2012 will move us further out of the hole dug in 2008.

Federal Reserve: The Federal Open Market Committee (FOMC) reiterated that interest rates would remain low until at least mid-2013 while also confirming that "Operation Twist" would continue as originally planned. One shift was a downgrade to growth expectations for 2011 and 2012. The range of estimates for 2012 growth fell from 3.3-3.7% to 2.5-2.9%. The FOMC did note that "there are significant downside risks to the economic outlook, including strains in the global financial markets."

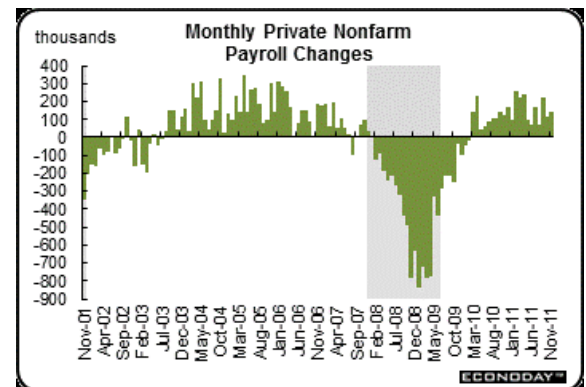
The FOMC is also considering changes to its communication strategy, including the release of a long-term inflation target, fed funds rate expectations, and GDP targeting.

At the end of the month, the Federal Reserve, in a coordinated effort with the Bank of Canada, the Bank of England, the Bank of Japan, the Swiss National Bank and the European Central Bank, announced measures to keep liquidity available for central banks which is necessary to keep financial markets functioning smoothly. The move was in direct response to funding pressure at a number of foreign banks and fears that an inability of foreign banks to borrow would lead to a severe recession around the globe.

An extension of the swap lines, coupled with a cut in the financing costs, at a minimum, buys European leaders additional time to figure out a long-term solution to the ongoing crisis. Bank stability was a growing area of pressure in Europe and could plunge the whole economy into a deep contraction. For now, those fears will ease while a cogent solution is debated.



Source: Haver Analytics



Source: Econoday



Global Equities: Thankful for a Month-End Rally

The European sovereign debt crisis was again the major force behind the performance and volatility of risk assets (stocks), with daily headlines seemingly driving returns. November saw the resignation of two prime ministers; yields on Italian debt spike above 7%, and a debt auction by Germany go partially unsubscribed. By month's end, the global equity index had risen or fallen by more than 1.0% in 10 of 22 trading days, with seven of those days experiencing moves of more than 2.0%.

Following a terrible Thanksgiving week in which global equities approached a month-to-date decline of 10%, global stocks waged a furious rally of nearly 8% in November's final three trading days. As a result, MSCI's All Country World Index (developed + emerging markets) ended the month with a more modest decline of 2.9%. Losses were widespread, as 42 of 45 ACWI markets posted negative returns during the month.

US equities continue to outperform other geographies partially because the US dollar strengthened against most currencies. The broad international index was weighed down by emerging markets and Asia ex-Japan, falling 5.1% in total. Surprisingly, European stocks held up relatively well, performing in line with Japan – a perceived safe-haven market.

Looking ahead, we expect continued volatility for global equity markets. With the European sovereign debt situation unresolved, investors have little incentive to pile into risk assets. And while economic growth has shown signs of life in the US, activity in Europe and China has slowed considerably.

Banking Industry - More Woes

- The largest US banks continued to underperform with many of the largest suffering double digit losses
- Questions persist about their vulnerability to the European sovereign debt crisis and more onerous regulation.
- The FDIC's *Quarterly Banking Profile* reported net income of \$35.3 billion in the third quarter, \$11.5 billion higher than the same period in 2010, and the highest reported quarterly net income since 2007.
- This improvement was driven by lower loan loss reserves, as opposed to any type of lending growth.
- The banking industry will struggle to sustain profitability without more organic sources of revenue growth.
- The S&P downgraded the debt of 15 major US banks because of a change in the agency's credit models, as opposed to any fundamental change. The downgrades trigger increased collateral requirements for several firms, reducing short-term liquidity.

Corporate Earnings Improve Slightly: Third quarter earnings season results showed just over 60% of US companies beating earnings estimates, according to Bespoke data. This was an improvement over the prior two quarters but still below levels seen in the first two years of the recovery.

International Equities: International stock performance was affected by currency, as every major currency except the yen weakened against the US dollar. Ongoing turmoil in Europe and evidence of a slowdown in China were contributors to a modest loss in the broad international index. Developed markets outpaced emerging markets during November, and appear poised to outperform in 2011 for just the second time since 2000.

Eurozone debt crisis & austerity measures: European stocks fell 1.2% in local terms in November, with a weaker euro, British pound, and Swiss franc pushing that loss to negative 4.5% for US investors.

With the escalation of the European debt crisis, a contraction in economic growth for the Eurozone in Q4 now appears a foregone conclusion amidst severe austerity measures and poor consumer and business confidence. European leaders now appear to be



discussing a more integrated fiscal union to go along with its monetary one – but it is unclear whether such a dramatic, but ultimately necessary, step can be approved by the competing factions within the EU.

Japan did not fare exceptionally well in November considering its safe-haven status. While flight-to-safety did occur at the currency level, Japanese equities still fell almost 5% in local terms. The country may be suffering due to a perceived slowdown in China, where Japan's bevy of exporters has made strong inroads. GDP growth for the fourth quarter is expected to drop into negative territory following a post-disaster bounce in Q3. YTD the country's index remains mired in negative territory (-15%), lower than in the aftermath of March's natural disaster.

China: China also performed poorly during the month, falling more than 8%. China endured several negative economic data points during the month, punctuated by a sharp drop in manufacturing activity. Chinese officials have already initiated pro-growth policies in response, including a 50 basis point cut to its reserve ratio requirement for banks.

Emerging markets suffered the brunt of investor aversion in November, falling nearly 7%. Losses were concentrated in Asia, which fell 8.5%. India was the worst performer, declining 16% in the month alone as the country continued to battle soaring inflation and allegations of political corruption. India's government has raised interest rates by a record amount in 2011, crimping growth dramatically – third quarter GDP reported in late November grew at the slowest pace in more than two years. The Indian rupee is the worst performing Asian currency this year, and country officials recently their intentions to stem the currency's dramatic fall.

The remainder of emerging markets was not immune, as Latin America endured a decline of 6%. On a local currency basis, however, the market was only modestly negative for the month. The EMEA region, primarily comprised of Russia and South Africa, held up better with a decline of just 2% in US dollar terms. The countries' indices are dominated by oil and gold mining companies, respectively, and each of those industries did well in the month. The broad emerging markets index is now down more than 17% for the year.

Frontier markets performed admirably in November relative to other global markets. The MSCI index fell 3%, and is now roughly in line with the broader emerging markets index for the year.

Source: MSCI, Bloomberg, WSJ, The Economist, Morgan Stanley, Bespoke, FactSet, Russell, Reuters, J.P. Morgan



Fixed Income: risk off this month

US Taxable Markets: Performance in the fixed income markets was mixed. US Treasuries posted a gain of 75 basis points with longer maturity bonds generated the majority of this gain as the yield curve flattened.

Corporate Bonds: Unfortunately, corporate based securities did not fare as well. In past months, as yields for Treasuries have fallen, yields for investment grade bonds held steady. This led to performance that largely reflected the income produced by this sector.

November was a different story as investment grade corporate bonds lost nearly 2%. High yield bonds, which have not held up well in 2011 in the face of falling risk free rates, continued this trend and lost nearly 2.2%. Leveraged loans showed a little more resilience, posting a loss of 50 basis points. Overall it was not a terrible sell-off but a loss of value nonetheless.

Securitized credit held relatively steady at 3%. Performance for the month reflected income partially offset by early pay downs of mortgage by borrowers – not a surprising result given interest rate levels and the stepped up mortgage refinance application activity experienced in October.

Municipal Market: The muni market produced solid returns in November. A reduction in primary supply along with steady retail demand resulted in yields for munis falling between 5 and 10 basis points across the intermediate portion of the yield curve. Munis started the month a bit cheap, with tax-exempt yields well in excess of US Treasuries. By month end, munis “richened” a bit, but continued to offer yields greater than Treasuries.

Credit problems were seen in Harrisburg, Pennsylvania as its petition to declare bankruptcy was denied and the city’s finances were placed under direction of the state. Jefferson County, Alabama was again in the news. The county is attempting to claim a portion of the sewer system to meet county general obligations. The month ended with a \$3 billion muni default from AMR Corporation, as the parent of American Airlines declared bankruptcy.

International Markets: The general risk off mood led to strength in the US dollar, which led to a drawdown in emerging market indices. EM currencies lost 3% in the month. Bonds lost 3.4% as yields rose in Eastern Europe in sympathy with the rest of the region. In aggregate, yields for EM bonds rose only 15 basis points to 6.55%.

Sources: Barclay’s Capital, Bloomberg LP, Financial Times, J.P. Morgan, Municipal Market Advisors, US Treasury

Liquid Real Assets: Lower Rates, Now What?

Commodities: The YTD trend for commodities continued in November. Energy again led the way, supported by a near 8% rise in crude oil. Tension escalated surrounding Iran’s nuclear program when the UK, France, and US threatened sanctions on the oil dependent economy. Russia and China quickly condemned any such economic warfare, resulting in a precarious standoff. Since Iran is the second largest OPEC member, short-term oil supply felt substantial pressure during the month.

US Treasury Yields

Security	10/31/2011	11/30/2011	Change
90 Day	0.01	0.01	0.00
2 Year	0.24	0.25	0.02
5 Year	0.96	0.95	-0.01
10 Year	2.11	2.07	-0.05
30 Year	3.13	3.06	-0.08

SOURCE: BLOOMBERG

AAA Municipal Yields

Security	10/31/2011	11/30/2011	Change
2 Year	0.56	0.54	-0.02
5 Year	1.38	1.31	-0.07
10 Year	2.64	2.54	-0.10
30 Year	4.45	4.45	0.00

SOURCE: BLOOMBERG



Of note, The US is on pace to export more fuel (i.e. diesel, jet fuel, gasoline, etc.) than import for the first time in more than 60 years.

Outside of energy, commodities struggled during the month. Industrial metals traded down as demand from China could not overshadow decreased consumption in Europe and US. Conversely, investors in precious metals (primarily because of gold) were optimistic, turning out heavy trading volume during the month. From a performance standpoint, gold rose modestly despite a stronger USD.

Lastly, grains lagged with corn leading the way lower. A strong USD and higher than expected summer grain yields are hurting US pricing competitiveness overseas.

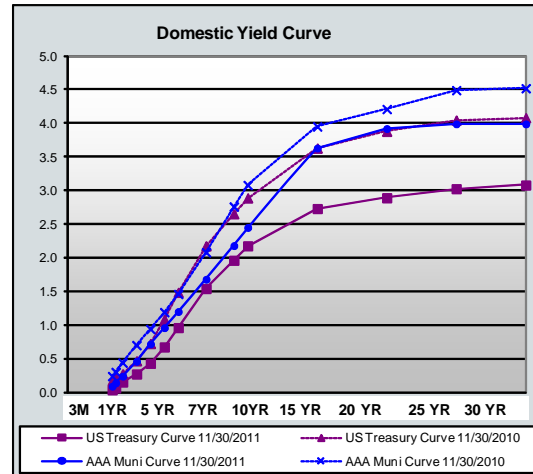
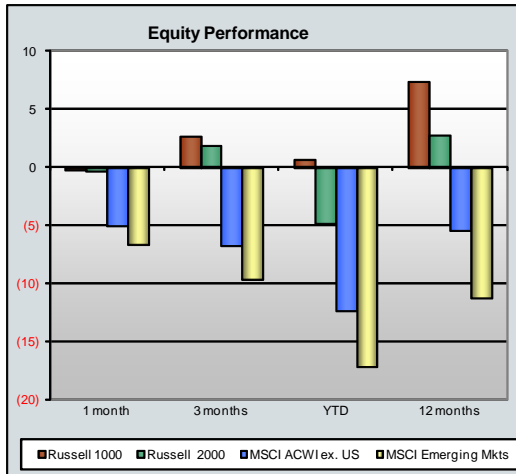
REITs: More than other liquid real asset class, REITs felt the bite of a potential relapse into recession. Only US REITs held onto positive gains YTD. US REITs, particularly retail, caught support from Black Friday sales which grew 16% YoY. There was some “cheating” on the part of retailers this year as many stores opened late on Thanksgiving Day, but the positive number resonated with investors nonetheless.

Earnings have seen modest improvements, but there has also been a noticeable deceleration in tenant demand. In other words, despite record low rates and reasonable pricing, companies are skittish to expand operations. Industrial REITs continued to lag, and are now the second weakest sector YTD behind Hotel, Resort & Leisure (-18.3% in 2011).

Sources: hardassetsinvestor.com, MLPHINDSight, S&P, WSJ, CBRE, FactSet, Alerian, commodityonline.com, fxstreet.com, USDA, IndexUniverse.com



MONTHLY PERFORMANCE FLASH REPORT
November 30, 2011



	1 month	3 months	YTD	12 months
Large Cap				
S&P 500	(0.22)	2.90	1.08	7.83
DJIA	1.18	4.46	6.70	12.39
Russell 1000	(0.26)	2.64	0.66	7.38
Russell 1000 Value	(0.52)	2.49	(1.59)	6.17
Russell 1000 Growth	(0.01)	2.79	2.97	8.65

	1 month	3 months	YTD	12 months
Small/Mid Cap				
Russell 2000	(0.36)	1.86	(4.80)	2.75
Russell 2000 Value	(0.20)	1.71	(6.96)	0.77
Russell 2000 Growth	(0.53)	2.00	(2.69)	4.70
Russell Microcap	(0.94)	(0.15)	(10.52)	(2.27)
Russell Midcap	(0.50)	1.62	(1.43)	5.39
Russell Midcap Value	(0.52)	1.65	(2.60)	4.75
Russell Midcap Growth	(0.49)	1.58	(0.16)	6.07

	1 month	3 months	YTD	12 months
All Cap				
Russell 3000	(0.27)	2.58	0.20	7.00
Russell 3000 Value	(0.49)	2.43	(2.04)	5.72
Russell 3000 Growth	(0.05)	2.73	2.50	8.32

	1 month	3 months	YTD	12 months
International Markets				
MSCI EAFE	(4.83)	(5.55)	(10.90)	(3.68)
MSCI ACWI ex. US	(5.08)	(6.71)	(12.36)	(5.49)
MSCI Europe	(4.48)	(4.64)	(9.11)	(1.48)
MSCI Japan	(4.41)	(6.15)	(14.90)	(8.41)
MSCI AC Asia Pacific Ex - Japan	(7.88)	(9.78)	(15.41)	(9.66)
MSCI EAFE SMID	(5.38)	(8.62)	(13.41)	(4.56)
MSCI ACWI ex. US SMID	(5.65)	(9.89)	(15.33)	(7.68)
MSCI Emerging Mkts	(6.66)	(9.68)	(17.18)	(11.26)
MSCI EMEA	(1.66)	(8.56)	(14.62)	(5.26)
MSCI Latin America	(5.95)	(8.75)	(17.87)	(12.64)
MSCI Frontier Markets	(2.95)	(5.69)	(17.46)	(13.57)

	1 month	3 months	YTD	12 months
Sectors (S&P 500 GICS)				
Consumer Discretionary	(0.65)	3.56	4.79	9.16
Consumer Staples	2.67	3.73	10.93	15.62
Energy	2.02	4.44	5.80	15.31
Financials	(4.75)	(3.55)	(18.50)	(9.75)
Healthcare	1.03	2.13	9.54	14.45
Industrials	1.02	4.56	(1.74)	5.86
Information Technology	(1.66)	5.97	3.31	8.75
Materials	0.13	(1.41)	(7.81)	1.75
Telecom Services	0.79	2.62	2.21	10.18
Utilities	1.11	4.95	16.00	19.58

Source: Bloomberg, FactSet

	1 month	3 months	YTD	12 months
Fixed Income				
BarCap US Agg	(0.09)	0.75	6.67	5.52
BarCap 1-10 Muni	0.72	0.25	5.35	4.44
BarCap HY Muni	(0.78)	0.35	7.33	5.54
BarCap Inv. Grade Credit	(1.96)	0.05	5.88	4.91
BarCap Muni Long Bond (22+)	0.13	2.36	12.20	8.32
BarCap US Agg Securitized MBS	0.18	0.35	5.49	4.91
BarCap US TIPs	0.77	2.41	13.52	11.76
BarCap US Treasury Intern	0.37	0.45	5.96	4.37
BarCap US Treasury Long	2.72	8.51	26.02	21.30
BarCap US High Yield Loans	(0.51)	2.84	0.59	2.06
ML US High Yield BB/B Rated	(1.80)	0.28	2.95	4.35
ML US Convert ex-Manadatory	(1.81)	(1.02)	(3.65)	(0.50)
JPM GBI Global ex US Hedged	(0.47)	(0.37)	2.31	2.39
JPM GBI Global ex US Unhedged	(2.03)	(4.09)	4.83	8.04
JPM GBI-EM Global Div	(3.41)	(8.04)	(0.29)	2.84
JPM ELM+	(2.97)	(7.10)	(3.71)	(1.22)
JPM EMBI+ Composite	(0.47)	(0.33)	7.83	7.12

	Latest Month end (11/30/2011)	3 Months ago (8/31/2011)	Latest Year end (12/31/2010)	12 Months ago (11/30/2010)
Currency				
U.S. Dollar Index Value	78.38	74.12	79.03	81.20
USD vs. Yen	77.62	76.66	81.12	83.69
Euro vs. USD	1.34	1.44	1.34	1.30

	1 month	3 months	YTD	12 months
Commodities				
Gold (\$ per troy ounce)	1746.38	1825.72	1420.78	1386.02
Crude Oil (\$ per barrel)	100.36	88.81	91.38	84.11



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