

Stocks were down slightly in the 4th quarter, digesting the Obama re-election and fiscal cliff debate without the large stock market sell-off feared by many. Despite the lackluster 4th quarter, 2012 ended up being an excellent year to be in stocks. The S&P 500 posted a 16% gain for the year, while the Dow Jones Industrial Average managed a return of just over 10%.

The market saw increased volatility in the 4th quarter around both the presidential election and the fiscal cliff debate. Stocks reached their low point for the quarter in mid-November and enjoyed a nice rebound into year end. For the 4th quarter as a whole, the S&P 500 lost 0.38%, underperforming both international and small cap stocks. Interest rates remained low, with the 10 year Treasury bond yield ending the year at 1.76%.

Financials and Industrials were the best performing sectors in the market in the 4th quarter. Utilities and Telecomm stocks performed poorly, due to concerns about possible higher tax rates on dividend income next year. Technology stocks were also down, hurt by weakness in Apple shares.

Even with another solid year of returns, stocks remain attractive relative to historical valuations and in comparison to current bond yields. Dividend paying stocks should get a boost from the fiscal cliff resolution as well. Instead of taxing dividends as ordinary income as feared, the new legislation caps the dividend tax rate at 23.8% for high income earners and keeps it at 15% for many tax filers. Volatility will likely continue in the 1st quarter as Congress and the President debate spending cuts when the government again reaches its debt ceiling.

| Return of Various Market Indices | | | | | | | | S&P 500 | | |
|----------------------------------|------------|--------------|--------------|--------|--------|--------|---------|-------------------------|-----------------|------------|
| Index | Last Month | Last Quarter | Year-to-Date | 1 Year | 3 Year | 5 year | 10 Year | Economic Sector Returns | | |
| | | | | | | | | Wgt. | Sector | YTD Return |
| 3-Mo US T-Bills (Cash) | 0.01% | 0.02% | 0.06% | 0.06% | 0.07% | 0.38% | 1.64% | 15.6% | Financial | 28.82% |
| Barclays 1-3 Year Gov't Bonds | 0.03% | 0.07% | 0.51% | 0.51% | 1.49% | 2.49% | 2.83% | 11.4% | Consumer Discr. | 23.92% |
| Barclays Gov't/Corp Bonds | -0.29% | 0.32% | 4.57% | 4.57% | 6.62% | 5.99% | 5.19% | 3.1% | Telecomm | 18.31% |
| Dow Jones Industrial Average | 0.79% | -1.74% | 10.24% | 10.24% | 10.87% | 2.62% | 7.32% | 12.0% | Health Care | 17.89% |
| DJ Wilshire 5000 | 1.21% | 0.10% | 16.06% | 16.06% | 11.15% | 2.03% | 7.85% | 10.1% | Industrial | 15.35% |
| S&P 500 Composite | 0.91% | -0.38% | 16.00% | 16.00% | 10.87% | 1.66% | 7.10% | 3.6% | Materials | 14.97% |
| S&P 500 Growth | -0.14% | -2.04% | 14.61% | 14.61% | 11.33% | 3.39% | 7.10% | 19.0% | Info Technology | 14.82% |
| S&P 500 Value | 2.17% | 1.64% | 17.68% | 17.68% | 10.47% | -0.15% | 7.04% | 10.6% | Consumer Staple | 10.76% |
| S&P 500 Utilities Sector | 0.05% | -2.86% | 1.29% | 1.29% | 8.60% | 0.36% | 10.43% | 11.0% | Energy | 4.61% |
| Russell 2000 (Smallcap Stocks) | 3.56% | 1.85% | 16.35% | 16.35% | 12.25% | 3.56% | 9.72% | 3.4% | Utility | 1.29% |
| MSCI EAFE (Int'l Stocks) | 3.21% | 6.60% | 17.90% | 17.90% | 4.04% | -3.21% | 8.70% | 100% | S&P 500 | 16.00% |