Leigh Baldwin & Co.

Investment Brokerage

"The old year has gone. Let the dead past bury its own dead. The New Year has taken possession of the clock of time. All hail the duties and possibilities of the coming twelve months!" –Edward Payson Powell

As we wish everyone a safe, healthy, and prosperous New Year it is also the time for our annual reflection on markets past and of the coming twelve months. On the heels of the tremendous turnaround we saw in 2009, 2010 was jagged for 11 months and with a huge finish in December, closed well into double-digit returns for all of the major averages. The Bulls have taken charge and there is certainly optimism for the year ahead. How then, do we position our investments for 2011?

There are three major themes for the next 12 months that investors should be well aware of …

INTEREST RATES
According to the Fed, our recovery has lagged, particularly when it comes to job growth and they have maintained a zero interest rate environment for at least another year. With the announcement of QE2, or the Fed's bid to buy long term bonds in order to keep rates low, the government has signaled that they want rates low. This low interest rate policy is dramatically hurting seniors and savers who are being forced to take more risk in order to gain a return. On the positive side, the threat of QE2 should offer support to markets as money leaves bonds and heads into stocks.

GOVERNMENT INVOLVEMENT
All eyes in 2011 will be on the way the government handles the realities of fiscal short-comings at every level, local, state and federal. As the government tightens its belt, addresses huge legacy pension costs, and struggles with deficits, investors will be in for a ride, particularly when it comes to municipal bond investing. We believe that the potential for significant opportunities in the municipal market will emerge amid the chaos of government change. Stock players are also looking forward to legislative grid-lock, as uncertainty plays havoc with equity investments.

INFLATION FEARS
2010 will go down in history as one of the strongest years on record for commodity investments. Investments in precious metals, oil, grains, etc. all closed near yearly and multi-year highs as it seems everyone is in. This is a crowded trade and as the New Year presses on, we believe that investors may want to lesson their exposure to commodity plays. The earnings reports for the oil companies for example, should be stellar next month, and that may create an opportunity to exit amidst strength for many of the commodity stock/fund investments.

The markets' robust finish should translate into momentum for the next 12 months, even with some selling to start the year based on tax reasons and annual repositioning of assets. Money flows from bonds and bond funds into stocks and stock funds, should be positive as well for investors. Bond funds will most likely be a drag on performance. QE2 should offer a level of support for markets. One wild card could be the chance that gasoline rises to over $4 per gallon in the coming months ahead. This psychological and economical level immediately put the brakes on the economy in 2008. The possibility of higher energy prices will most likely put cap on returns in 2011. In summary, market momentum for stocks is positive and for bonds it is negative. QE2 provides some support to the downside and higher energy costs could prove to limit the upside. In a trading range, it becomes increasingly important to manage your investments. We look forward to serving you again in the years ahead as we look to manage risk, cost, and absolute performance.

"Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it." – Warren Buffett

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