

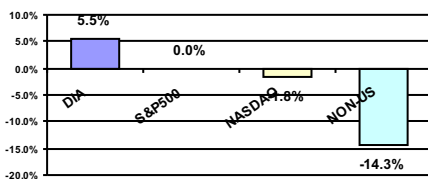
Economic and Market Commentary

A year ago, the consensus among economists and strategists was pretty rosy heading into 2011. It all seemed to make sense as many indicators were flashing green lights, but we now know that many surprises were lurking in the shadows. Natural disasters, government debt downgrades, and European economic concerns were just a few of the events on the horizon that would rock the world causing major swings in equity and bond markets reaching volatility records throughout the year.

Last year we were looking down the double barreled combination of fiscal and monetary stimulus already in place with promises of more to come if needed. We were also entering the third year of a presidential term which historically has been good for the economy and the markets. On the monetary side, the Federal Reserve vowed not only to support the economy if it began sagging but, follow through fighting vigilantly with various versions of its quantitative easing to continue the free flow of money and keep long-term interest rates low. Keynesians stood tall with high hopes that the payroll tax cuts, already in place, would ultimately stimulate the economy by placing extra money directly in the consumer's pockets. Unfortunately, the rosy projections were a little over stated and the 3% GDP growth rate consensus for 2011 is coming in lower than expected.

Equities

Stock markets around the globe took a year-long roller coaster ride with breathtaking swings where 2-4% daily moves became commonplace. In 2011, the Dow Jones Industrials Average was up 5.5%, the S&P 500 was flat at 0.0%, the NASDAQ was down -1.8%, and Non-U.S. Stocks tumbled by 14.3%. Surprisingly enough, flat or slightly or slightly positive returns were enough to place the U.S. near the top of the list of countries that were able to swing into positive territory. No Eurozone countries placed in positive territory and most suffered double digit losses proving investment performance is all relative.



Positive economic indicators and companies reporting record profits inspired investors to drive equity markets up in the first half of the year only to fall precipitously over the summer. The good news of a slow but steady recovery was drowned out by the constant barrage of negative news and worry from overseas markets, high unemployment, and repeated worries of the infamous Double-Dip Recession. It's no surprise that investors flocked to higher dividend paying stocks which explains why larger capitalized stocks outperformed smaller ones.

As during prior volatile periods, funds flowed into what is generally perceived as safer areas of the market resulting in Utilities far outpacing the general market with a 14.1% return, Healthcare stocks gained 8.9%, and the toothpaste, tobacco, and soap sector of Consumer Goods turned in a 5.3% return. Due to our disciplined strategy which focuses on strong balance sheets and strong dividend history, we headed into 2011 with solid positions in all of these sectors and benefited from this exposure. Sectors where we were already underweighted did not fair as well. Financials dove 18.4% taking basic materials down with them at 11.6%. Other sectors where we held positions at or near market weights were nearly flat for the year.

Bonds

Standard and Poor's downgrade of the credit rating of the U.S. Government only added fuel to the flames of uncertainty, and anxiety to the markets. Surprisingly, this news was shrugged off as investors continued their flight to safety driving U.S. Treasury prices up and yields down to where the 10-year note consistently traded below 2%. Other factors driving U.S. Treasury prices in the second half of the year were the fear of continued slow economic growth, the burgeoning sovereign debt levels in Europe, and the weakening Euro. This almost complete disregard of the credit downgrade, the last minute raising of the debt ceiling to avoid defaults, and the continuation of the Federal Reserve to maintain low rates at any cost, drove the long bond up nearly 30% for 2011. These returns towered over what would have normally been respectable returns of 7.8% for the Barclays Capital Index and 6.0% posted by investment grade corporate bonds where we have been seeking higher yields for our clients throughout 2011.

Commodities

Gold nearly reached \$1,900.00 per troy ounce in 2011 settling at \$1,565.00 enduring a 500- point price swing and ultimately ending the year with a respectable 10% return. It appears that some of the luster of gold has diminished as investors seek income producing assets. Crude oil experienced similar volatility ranging from \$75 to nearly \$114 per barrel at its high settling just below \$100 at year end. While some of oil's moves in 2011 may have been driven by economic events like the Japanese Tsunami and the government's easing of oil reserves, there still seems to be some speculative trading accompanied by hedging which helps to explain the \$40 price swing last year.

Economy

While the first quarter of 2011 was relatively quiet and equity and bond markets were well-behaved, world events, fear, and uncertainty took over from there. In March, a Tsunami struck the shores of Japan causing global markets to swoon. Fortunately, the downturn was short-lived and the global market recovery was swift. The second quarter also started off quietly but as debt pressures and political unrest began to build overseas, stocks headed into a global slide. Worries abounded in the third quarter as investors flocked to treasuries again even after the recent U.S. credit downgrade. Just as the world seemed to be the end of its rope, October delivered a double digit return for stocks and investors took a deep breath. The remainder of the quarter was relatively tame as we all absorbed the events of the year and assessed the future of the European markets. There has been a recent decoupling of the highly correlated global markets from the U.S. markets which confirms that despite the global economic struggles, the U.S. is on a slow but steady path to economic recovery.

As always, the key to a successful investment strategy involves selecting an investment objective and asset allocation that matches your specific risk tolerance. Remember that we are investors for the long-term, not market timers, speculators, or traders. At Seacoast, your Wealth Management Team will continue to provide you with the highest quality service while enhancing total return within your desired risk tolerance parameters. Please feel free to contact your Wealth Management Team anytime with questions and comments at the below referenced phone numbers. As always, we welcome the opportunity to be of service and appreciate your valued relationship.



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