



Dorion-Gray Retirement Planning Weekly Commentary January 9, 2012

Tactically Speaking....

The market (S&P 500) closed up 1.67% for the first week of 2012. Seven of the ten sectors were positive led up by Materials and Financials at +3.9% and +3.1% respectively. The lagging sectors were Utilities and Telecom down -2.7% and 1.5% respectively.

There were several more encouraging factors that continue to point toward an improving economy and rising equity markets.

First, this could be the year themed “U.S. Dollar Rules” as the US Dollar Index rose another +1.3% week-over-week to \$81.25 (a 13 month high) versus the Euro. The dollar is expected to appreciate at least another 10 to 15% over the next several months. This would suggest that the Eurodollar will move down toward the 1.12/1.08 levels. A strong dollar has two positives as it aids U.S. consumption which makes up 70-71% of U.S. GDP and encourages more foreign investment in the U.S. – a lot of this investment could end up in the equity markets helping to push stock prices higher.

Second, the Department of Labor’s December employment reported showed 200,000 jobs added. That with the decline in the weekly average first time unemployment insurance claims show that the job market is continuing not only to stabilize, but is actually starting to heal. Overall, the 2011 monthly average for job creation is 137,000, only 12,000 above what is needed to stay ahead of people aging into the workforce.

The U.S. has lost 8.8 million jobs since the start of the “Great Recession”. We have gained about 28% of those jobs back since and we are expected based on recent trends and 2012 GDP growth and expected below normal productivity growth to possibly get close to 50% of overall lost jobs back by the end of 2012. The underemployed and the unemployed now stand at 20 million, or 15.6%.

The headline unemployment rate dropped to 8.5% as more unemployed dropped out of the workforce. In fact, the total workforce today is only 7% more than it was ten years ago. If the workforce was the same size as it was in late 2008, the unemployment rate would be 10.5% today. The headline trends are good, but the trend of those dropping out is still not very good.

Third, recent releases from Europe and, especially, Britain have been a little more positive and seem to indicate that their recent recession issue has bottomed and economic activity can begin to grow. This will allow the U.S. market participants to focus on U.S. economic activity and U.S. earnings hopefully without the European distractions that have kept the market on edge through most of 2011. In fact, the U.S. Stock Market Volatility Index (VIX) dropped another 12% last week to 20.63 (a 6 month low).

Fourth, the 4th quarter earnings reporting season starts at the close of the market today (Monday) with Alcoa's release. Market participants will be just as interested in forward guidance as the actual earnings. S&P operating profits were reported to be \$101 a share in the third quarter. With the S&P 500 index at around 1280- the price-earnings ratio is about 12.67. By this or any other formula you might choose to use, stocks continue to sell well below their fair value.

Finally, as we have mentioned many times before, liquidity as measured by excess bank reserves is important because as bank reserves grow and work their way into the economy through the banks – spending increases which then encourages overall GDP growth which, in turn, provides jobs. The Fed bank controls this increase or decrease in bank excess bank reserves (excess reserves are reserves on deposit at the Fed in excess of required bank reserves and equates to money available for loans). In 2009 and 2010 the Fed created an average of 6% in excess reserves while in 2011 they created over 20% in excess reserves. This level of excess reserves should have caused quite a large increase in spending but the positive impact on the economy has been curtailed by problems in the banking industry exacerbated by increased government regulations.

The good news is that the financial industry appears to be coming back to health as commercial and mortgage lending are increasing at a very slow rate – but increasing.

As the pace of spending increases, the stock market generally moves higher, followed by other indicators such as new orders and commodity prices, and then consumer spending. A strong U.S. dollar and accessible excess reserves promotes both consumption and confidence.

Overall, we expect the volatility will remain lower than what we've seen over the last year and there will be more stability in the market patterns that will unfold.

Markets Expectations

Last Friday, the S&P 500 trading was a little choppy but in the end the index closed slightly down. However, for the week the index closed up 1.67% at 1277.81. Friday's close above the 1277.50 level does confirm that the market will move toward the 1297.90/1303.65 levels.

The next key level on the upside is 1284.60. A rise above this level will suggest a rally toward the 1297.90/1303.65 levels. There is a 60% probability that this will occur over the next 3 to 5 sessions. Intermediate charts suggest that the next target is 1310/1312 with a longer-term upside of 1376.

The critical level on the downside for the next several days will be 1274.15. If this level is penetrated, then a decline toward the 1270.60/1264.50 levels will unfold. There currently is only a 40% probability for this to occur. On a longer-term basis, the key level to watch will be 1258.60. A penetration of this level will suggest a more significant decline and a minor pattern failure which suggests a move down toward 1251.70/1248.60. There currently is only a 30% probability for this to occur. However, a decline below the 1258.60 level would only, at this time, indicate a delay in the upward patterns.

The weekly and monthly patterns continue to be positive, suggesting that the market will move higher over the next several weeks.

We will keep you informed.

Last Week in the Markets

For the week, the Dow climbed 1.25 percent to close at 12,359.92. The S&P gained 1.67 percent to finish at 1,277.81 and the NASDAQ rose 2.65 percent to end the week at 2,674.22.

Returns Through 01/06/12	1 Week	YTD	1 Year	3 Year	5 Year
Dow Jones Industrials (TR)	1.25	1.25	8.54	14.33	2.72
NASDAQ Composite (PR)	2.65	2.65	-1.32	17.41	1.90
S&P 500 (TR)	1.67	1.67	2.44	13.43	0.20
BarCap US Agg Bond (TR)	-0.14	-0.14	8.11	6.77	6.38
MSCI EAFE (TR)	-0.41	-0.41	-11.99	6.74	-4.59

Source: Morningstar.com. *Past performance is no guarantee of future results. Indexes are unmanaged and cannot be invested into directly. Three- and five-year returns are annualized. The Dow Jones Industrials, MSCI EAFE, BarCap US Agg Bond and S&P, excluding "1 Week" returns, are based on total return, which is a reflection of return to an investor by reinvesting dividends after the deduction of withholding tax. The NASDAQ is based on price return, which is the capital appreciation of the portfolio, excluding income generated by the assets in the portfolio in the form of interest and dividends. (TR) indicates total return. (PR) indicates price return. MSCI EAFE returns stated in U.S. dollars.

For The Year – Although the S&P 500's raw index value dropped fractionally during calendar year 2011 (falling from 1,257.64 on Dec. 31, 2010, to 1,257.60 on Friday Dec. 30, 2011), the total return gain of the index was 2.1 percent for the entire year (i.e., including the impact of reinvested dividends). The S&P 500 stock index has been positive on a total return basis in eight of the past nine calendar years. The one down year that occurred since 2003 was a 37 percent tumble in 2008. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market (source: BTN Research).

Up Versus Down – The split between “up” and “down” days for the S&P 500 over the past 50 years (i.e., 1962-2011) is 53 percent “up” and 47 percent “down.” The split during calendar year 2011 was 55/45, a surprising result considering that the year’s total return gain was just 2.1 percent (source: BTN Research).

From The March 2009 Low – Since dropping to a bear market low on March 9, 2009, (i.e., approximately 34 months ago), the S&P 500 has gained 97.2 percent (total return) through the close of trading Dec. 30, 2011 (source: BTN Research).

Best regards,

The Dorion-Gray Team

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* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

* The DJ Global ex US is an unmanaged group of non-U.S. securities designed to reflect the performance of the global equity securities that have readily available prices.

* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

* Gold represents the London afternoon gold price fix as reported by the London Bullion Market Association.

* The DJ Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

* The DJ Equity All REIT TR Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

*Commentary prepared by Dorion-Gray with information from various sources including market strategist R. Kendall, The Hudson Institute, EWI, Hedgeye Risk Management, Securities America, Inc., and ClassicPrinciples.com, JP Morgan Asset Management, and First Trust.

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. Technical analysis is provided based on our opinion of the overall prevailing market conditions but is not guaranteed and is subject to change without notice.

*The ISM Index is a monthly index released by the Institute of Supply Management which tracks the amount of manufacturing activity that occurred in the previous month. If the index has a value below 50, due to a decrease in activity, it tends to indicate an economic recession, especially if the trend continues over several months. A value substantially above 50 likely indicates a time of economic growth. The values for the index can be between 0 and 100.

* Past performance does not guarantee future results.

* You cannot invest directly in an index.

* Consult your financial professional before making any investment decision.