



Cedar Hill Market Recap

December 2011

Stock Markets

	Month	YTD
S&P 500	1.02%	2.11%
Russell 2000	0.66%	-4.17%
MSCI EAFE	-0.95%	-12.14%
MSCI Emerging Markets	-1.21%	-18.42%

Bond Markets

	Month	YTD
Barclays U.S. Aggregate	1.10%	7.84%
Barclays Intermediate	0.76%	5.97%
Merrill Lynch 5 Yr. Municipal	1.32%	6.93%
Merrill Lynch High Yield Master II	2.48%	4.38%

Alternative Investments

	Month	YTD
HFRX Hedge Fund Index	-0.49%	-8.92%
Dow Jones UBS Commodities Index	-3.75%	-13.32%
Dow Jones REIT Index	4.61%	7.54%

U.S. Treasury Rates

	12/30/11	12/31/10
3-month	0.02%	0.12%
1-year	0.12%	0.29%
5-year	0.83%	2.01%
10-year	1.89%	3.30%
30-year	2.89%	4.34%

*All performance figures as of 12/30/11. YTD period is 12/31/10 - 12/30/11.

Economic Highlights

- U.S. consumers continued to reduce their debt in the fourth quarter of 2011. Household debt service as a share of disposable personal income fell to 11.1 percent, the lowest ratio since the fourth quarter of 1994. While reducing consumer debt is positive for the economy in the long term, it could hold back consumer spending in the short run.
- Inflation remains in check; the Consumer Price Index was flat in November after dropping by 0.1 percent in October. While inflation ramped up significantly early in 2011, it has been notably benign the last few months. This leaves the Fed greater flexibility to implement a third round of quantitative easing to support the economy if needed.
- The third and final GDP estimate for the third quarter of 2011 was revised down to a 1.8 percent annualized growth rate, which is below the previous 2.0 percent estimate and initial 2.5 percent estimate. With downward revision, GDP continues its trend of disappointing expansion from the first half of the year. Consensus GDP growth estimates for the fourth quarter of 2011 and all of 2012 are 2.75 percent and 2.10 percent, respectively.

Market Highlights

- The S&P 500 posted a slight gain in 2011, which is impressive for a year that witnessed revolts throughout the oil-rich Arab world, an earthquake and tsunami in Japan that caused global supply chain disruptions, the United States' credit rating downgrade, and lingering fears of a financial collapse in Europe.
- The Treasury rally continued in December, helping the 10-year note post its largest yearly gain since 2008. At the end of December, the 10-year Treasury yield was just 1.9 percent, compared with the S&P 500's 2.1 percent yield.

What We Are Doing About It

- Expect a potentially bumpy ride for U.S. equities as Europe continues to work through its fiscal problems slowly. We believe the global economy will eventually stabilize, which will support higher interest rates and commodity prices. We are focusing on U.S. companies with high dividend growth rates.
- Emerging market equities will improve when investors become more comfortable with Europe.
- Given low interest rate levels, we are using high dividend paying equities as an alternative income source. Our positions include MLPs, BDCs and preferred equities. The yield on these securities far exceeds bonds and could offer additional returns through capital appreciation.
- We are emphasizing high-quality corporate bonds with six- to nine-year maturities. We are limiting duration because of possible higher interest rates in the future.