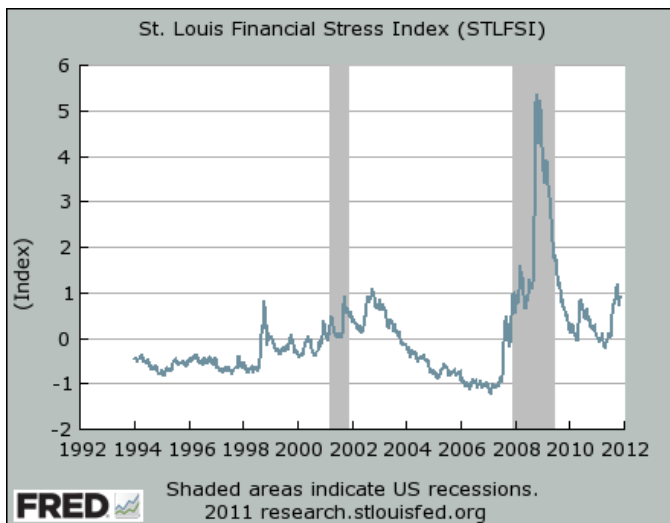


Observations

- ❑ There is a failure of trust in the manipulated, by-the-seat of the pants, political and economic systems. Eventually, a breaking point will cause the rigging to unravel leading to the question of whether the unraveling will be inflationary, deflationary, or a combination both. We are in the camp that it will be both. For example, residential real estate prices may decline further while energy prices may increase causing an adverse ripple effect throughout the economy.
- ❑ Low interest rates benefit the government, and should benefit borrowers. However, what is the incentive for private sector borrowing and taking on risk in this environment with so much uncertainty in the future? Major elections are on the calendar for 2012 which makes it ripe for political posturing and spin, especially on the economic front. Investors and savers are likely seeing negative real returns (what did your money earn after taxes and inflation?). Inflation, taxes, debt, and unnecessary regulations continue as an anchor around the economy.

Facts & Figures of Importance

Economic



The Financial Stress Index exhibits an uptick in the second half of this year and that could be a sign not to expect economic improvement anytime soon. We do know that the US housing market has yet to bottom-out given a large pipeline of future foreclosures. Wages and manufacturing output remain stagnant. On a positive note (well sort of) US Government wasteful spending continues meaning Americans must work longer to repay the debt someday.

Economic Outlook

- Fits and starts, but no significant changes near term.
- Be skeptical of headline economic news as 2012 is an election year. There is no catalyst to propel the US economy until debt & deficits are under control.
- In the economic battle of wits between Democrats and Republicans, neither side is armed. Failure is an option.

Financial

	Treasury Yields		Equity Markets	
	5 Year	10 Year	S&P 500	DJWilshire 5000
2006	4.70%	4.71%	1,336	14,257
2007	3.45%	4.04%	1,468	14,819
2008	1.94%	2.96%	896	9,087
2009	2.69%	3.85%	1,115	11,562
2010	2.06%	3.38%	1,258	13,360
11/30/11	0.96%	2.08%	1,247	13,101
YTD Return			1.08%	-1.94%

Republic of Ireland – CDS Price Chart



See what can happen when governments and citizens tackle a problem head-on? The cost of credit default swaps drops as investors show more confidence in the actions of Ireland to address its debt. They still have a ways to go, but they appear to be on the right course. May lady luck be with Ireland.

Investment Outlook

- World central banks emergency lending fund is a signal that European banks are close to the edge and their problems will likely spread quickly. Beware of the banks.
- Eventually, the “sugar high” of governments flooding the markets with money will where off. Equity investors must continue to focus on earnings quality and ROI.

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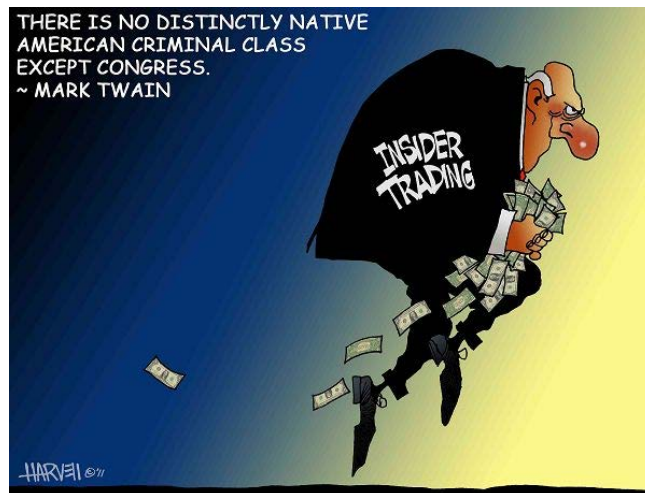
Insightful Thoughts of Others

We need equality under the law. From now on, laws that apply to the private sector must apply to Congress, including whistleblower, conflict-of-interest and insider-trading laws. Trading on nonpublic government information should be illegal both for those who pass on the information and those who trade on it. (This should close the loophole of the blind trusts that aren't really blind because they're managed by family members or friends.)

Sarah Palin in the *Wall Street Journal*

Politicians have made politics a business. There are increasingly entrepreneurs who use their power, access, and privileged information to generate wealth. And at the same time well-connected financiers and corporate leaders have made a business of politics. They meet together in the nation's capital to form a political caste.

- Peter Schweizer, *Throw Them All Out*



A Few More Things

- Here is rooting for the citizens of China (who are becoming more informed as they navigate around government censorship, especially of the internet) to compel their government to accelerate reforms if China truly desires to be a world leader. First, will respecting human rights and the rule of law carry weight in China? Next, crack-down on corruption both foreign and domestic. Manufacturing counterfeit/knock-off goods and selling them is dangerous and will damage China's credibility. And pegging the yuan to the dollar is second rate. Notice China was conspicuously absent from the world's central banks coordinated actions to provide emergency loans to Europe and other nations. While China did lower bank reserve requirements, let's see if funds actually end up purchasing European sovereign debt. The aroma from this move is that China is more concerned about the continued growth of its economy and less about inflation. China will have to decide whether it wants to be a frenemy or true partner in advancing global good.
- Get used to failures within the US infrastructure as years of neglect begin to show. It would do everyone good to update their household emergency supplies and basic survival skills. Talk with people who have experienced the wild fires in the West, tornados in the Midwest and South, or storms in the Northeast. What is shown on television versus what the majority of people experience are two vastly different things.
- The media coverage of the Penn State story and the actions of the Penn State board of trustees exemplifies one of the shortcomings in our society. There is a rush to judgment before all facts are gathered and analyzed. Was nothing learned from the case of the Duke lacrosse players? Does anyone remember the wrongful accusations made about Richard Jewel? Let's see what comes out of the investigations and trials and then rational opinions can be formed.
- Elected officials have it too comfortable, be it world leaders, congress members, of even local governments. Reduce the size of their offices, staffs, and perks. No more resort locations for conferences. Conference and meeting rooms should have unpadded wooden chairs. Bottled water and bagels at breakfast with p&j sandwiches (maybe bologna) for lunch. Attendees should pay for their own lodging. Absolutely neither sponsorships nor can lobbyists be within five miles of a meeting site. No cellphones on while meetings in progress. Want to bet that meetings would become more productive and the outcomes more advantageous for citizens.
- Merry Christmas, Happy Holidays, and Best Wishes for a Prosperous New Year in 2012!**