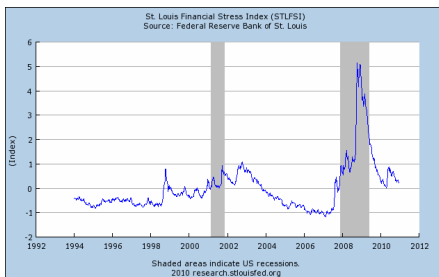


Observations

- In the “right now” world in which information flows are faster than people can rationally analyze and act, too many people react to the immediate without thinking about future consequences. The past Congress and President just acted as such with the current “tax compromise”. How does America benefit from this deal? Short-term patches usually do not result in long-term optimal solutions. If you thought the past two federal election cycles were cantankerous, just wait until 2012. Ours is a system built on trust. How much trust do you have in governmental leadership? Set aside political stripes, and think about how and when honor, integrity, and trust are to be restored.
- Look for the 2012 presidential election chatter to increase. The media spotlight will shine on Sarah Palin. Ignore it as she should be smart enough to know it is unlikely she could win with a hostile media and besides, she has a healthy income stream. Knowing history repeats itself, if the economy lingers and current presidential ratings remain low, would Hilary Clinton resign as Secretary of State to challenge an incumbent president as Ted Kennedy did in 1980?

Facts & Figures of Importance

Economic



The St. Louis Federal Reserve Board has created an interesting index that measures financial stress across markets. While the graph above shows the financial patient is no longer in intensive care, it is still a long road until the patient will be well and fit again. Reduce spending and debt and watch how things will improve.

Economic Outlook

- While recent economic data has been better than expected, oil and retail gasoline prices can keep a tight rein on US economic growth.
- Interest rate and currency movements will continue to keep the economy and investors on a roller coaster ride.
- Expectations for employment figures should be tempered as more state and local governments continue with layoffs and as discouraged workers begin looking for work again (see Bureau of Labor Statistics U-6 calculation).

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
YTD Return			15.06%	17.16%

The January Effect

The January Effect is a stock market anomaly first recognized as early as 1942 that proposes that small cap stocks tend to outperform the broader market during the first month of the year. Theories include investors taking advantage of tax-loss selling before year-end, favorable research reports issued at year-end, or that others who need cash simply sell before the holiday season. In January, those investors reinvest proceeds from prior year sales or look to invest new funds. Some attempt to profit from the strategy by purchasing stocks late in the year and then selling in January attempting to catch a market upswing. The January Effect does not always hold true, so invest at your own risk.

Investment Outlook

- Expect an over-reaction to the defaults in the muni-bond market. State and local governments will be forced to make tough choices, with a combination of tax increases and spending cuts offering a short-term cure.
- When investments such as gold are peddled on TV, you have to wonder. Does gold pay a dividend, can you eat it, does it multiply, or can it cure physical ailments? And just what are industrial uses for gold? Do not quite understand it's investment appeal other than for greater fool purposes

Insightful Thoughts of Others

We are leaving an era where to be a mayor, governor, senator or president was, on balance, to give things away to people. And we are entering an era where to be a leader will mean, on balance, to take things away from people. It is the only way we'll get our fiscal house in order before the market, brutally, does it for us.

- Thomas Friedman

Perhaps most disturbing of all, ego is still very much a central part of the Wall Street machine. While the financial crisis destroyed careers and reputations, and left many more bruised and battered, it also left the survivors with a genuine sense of invulnerability at having made it back from the brink. Still missing in the current environment is a genuine sense of humility.

- Andrew Ross Sorkin



A Few More Things

- ❑ The American public that has been paying attention and that is informed understands that our economy will not only remain stagnant as long as spending and debt remain too high, but place all of us in danger should there be an economic disaster. For too long, the American public has been suckers to a two party system that has acted in the best interest of a small group of self-centered politicians rather than what is in the best interests of the nation. Most people have personal contact with politicians and can vouch that the politician is a good person with the best of intentions. However, what happens to that person when they must govern? Where do the basics of principles, common sense, sound judgment, and reason go? Unless Americans become better informed and begin holding individuals and the government as a whole more accountable, our slide into economic malaise will continue.
- ❑ There may be hope if state governments both recognize and address budget issues. Virginia and New Jersey have jumped out of the gate early to make difficult decisions. In 2011, we will see which states deal with economic reality and which are still living in denial or hoping for the Federal government to rescue them.
- ❑ The marketing and advertising world spend considerable resources attempting to manipulate our behavior. From the products we purchase to the candidates for whom we vote. Marketers hyper-stimulate us by targeting the primal urges of our brain such as fear and pleasure. Pay attention to a trend, especially in advertisements, where narcissism and inappropriate behavior is accepted, encouraged, and sometimes rewarded. Human beings tend to naturally act in their own best interests, however outside forces promoting wrong behavior and often doing so by using deceitful tactics cannot have an overall positive effect on a society.
- ❑ There appears to be a generational split growing with respect to individual privacy. Younger people are likely divulging more information than they should be via websites such as Facebook or MySpace. Computers not only store a vast amount of data, but can be used to gather to reveal more information about a person than he/she may realize or are comfortable with knowing others can access. As cell phones have evolved into smart phones, people may not realize the information that is being collected about their usage and behavior. It is not the technology that is the problem; it is how people use it and how what is a convenience today will likely bite someone in the future. Incorrect information once in a database is difficult to correct. Think about employers, advertisers, insurance and financial companies, governments, and heaven forbid, how criminals could use this information.
- ❑ **And to all, a Happy, Healthy, and Prosperous New Year in 2011** (and look out for Big Brother is watching you).

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