January 2012

Welcome to our first economic letter of 2012, which we will be sending bi-monthly throughout the year. In addition, we have developed plans to provide further timely communication via email, our website, and additional in-person client events. Chris is also developing an investment and planning oriented newsletter which will be emailed in February and available on our website.

ECONOMY AND INVESTMENT MARKETS

Last year was fraught with political and economic volatility. Wars in the Middle East, spikes in oil prices, a devastating earthquake in Japan that caused a tsunami and nuclear crisis, and fears of financial collapse in Europe resulted in a wild year for global equity markets. Not to be outdone politically, our own US Congress distinguished themselves by failing to even seriously begin addressing our version of the "Europe problem," resulting in the first ever downgrade of the US credit rating. Maybe term limits would get their attention.

The situation in Europe caused much angst in the US, in part because we could be in the same boat some day if we fail – as many European countries have – to address the soaring costs of entitlement programs for our citizens. We have an aging population that is living a lot longer than projected. Increases in the cost of providing lifetime retirement income and medical care are far higher than estimated when these social programs were started. Perhaps our Congress should read Hemingway's "The Sun Also Rises" where the question is asked of Mike how he became bankrupt. His answer: "…slowly at first, then suddenly."

Ultimately, Germany will provide the leadership to a solution in Europe, but they seem to be in no hurry. They want to send a strong message to countries like Greece, in particular. According to Dr. David Kelly of JP Morgan, as of December 1 no one who works for the Greek government has yet been laid off. The average government worker in Greece earns 75,000 euros while in Germany that same worker earns 55,000 euros. Disparities in other countries including Spain, Italy, and Portugal are not as

Paul Tully
CFP®

Chris Tully
CFP®

Steffanie Lerch
CFP®

Jessica Hauser
Financial Services Associate

DANA DELOACH
Client Communications & Marketing Associate

58 Euclid Street, Woodbury, NJ 08096 | Tel 856.845.4005 | Fax 856.845.4121 | EagleWealthStrategies.com

severe, but you get the point. There is some serious austerity coming to Europe. Even though there is considerable resistance at present, they are beginning to make progress. This austerity is chiefly responsible for the recession in Europe which fortunately is anticipated to be relatively mild and short. Fortunately for us, US exports to Europe are less than 4% of our economy.

The foreign investment markets that have lead the world over the past 10 years suffered significant losses in 2011, with the leading index, the MSCI EAFE, down 12.1%. In the US, the S&P 500 Index had a very volatile year. It suffered through one of the worst 3rd quarters in over a half century, followed by the one best 4th quarters ever (up 11%), and ended the year almost exactly where it began at 1,257.64. With dividends, the S&P 500 was positive 2.2% for the year. The Dow Jones Industrial Average, though less representative of our equity markets but more frequently quoted in the media, had its single largest quarterly point gain in history, up 1,344 points in the 4th quarter. Perhaps the end to 2011 will provide momentum into 2012. Chris's new investment newsletter in February will give some interesting historical data and relationships pertaining to our investment markets.

The year was not without a number of economic highlights that may indicate that we are in a sustainable recovery from the deep recession that technically ended in mid-2009.

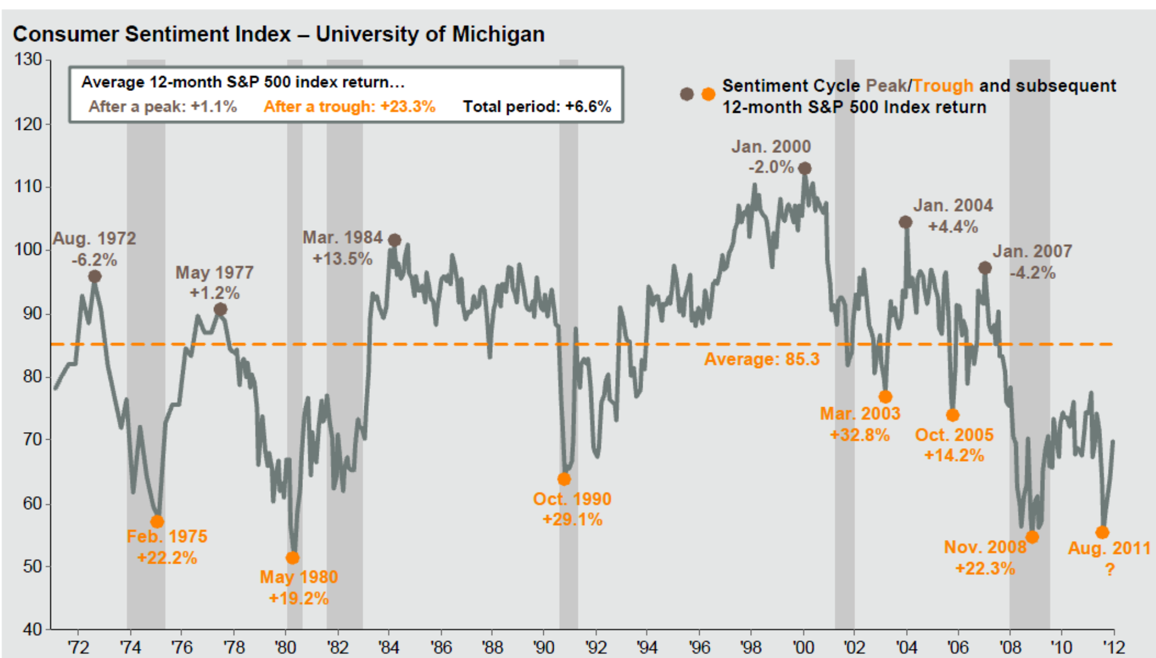
- Our economy, as measured by Gross Domestic Product (GDP), is at an all time high, as are corporate profits which surpassed the previous high hit in 2007.
- The December unemployment numbers indicated a continued, though slow, recovery in jobs. For the month, 200,000 new private sector (non-farm) jobs were created (after 120,000 were created in November) with the unemployment rate dropping to 8.5%, the lowest since February 2009. We have now had six consecutive months of 100,000 job gains. As we have mentioned in previous letters, there is a vast difference in the unemployment rate based on education. For college graduates it is 4.5%; high school graduates is 8.4%; and for high school dropouts the rate is over 15%. According to Dr. Richard Marston, professor at the Wharton School of the University of Pennsylvania, those disparities are likely to continue for decades. He cites as support for this that even though manufacturing in the US has doubled since 1980 (after accounting for inflation), manufacturing employment has fallen from 18.7 million workers to only 11.5 million (US Department of Labor). Manufacturing today requires education and computer skills. He put it very bluntly: "No skills plus no education equals no job."
- Auto sales, which at one point during the recession were under 10 million units per year, are now at a 13 million per year pace and growing. Normal demand is estimated at 16 million units, so even though there has been great improvement, there is likely even more to come.
- Gasoline, which peaked in price in May at $3.98 per gallon, had declined to $3.21 by December.
- For the first time in over 60 years, our top export was…petroleum! Ten years ago, petroleum was not among our top 25 exports. For the past five years, our leading export was aircraft.
- Housing continues to take a step or two forward, a step or two back. It appears that the price declines we experienced in recent years are over as prices remained flat with recent signs of new construction. Today, the rate of housing construction is 50% of the rate of population growth.

At some point we may see a very robust construction cycle, but it appears that in many parts of the country we still need to work through the excess inventory and foreclosure issues first.

- The budget deficit as a percentage of the economy (GDP) is declining and is projected to continue to do so as the economy grows and as budget measures already committed kick in. According to the Congressional Budget Office, two years ago the deficit was over 10% of the economy while last year it was 8.7%. In 2012 it is projected at 7.1% with that figure declining further to 4.7% in 2013. We are at least heading in the right direction, though plenty of work still needs to be done.

In 2011, the economy itself grew modestly and there is little question that the disaster in Japan (which impacted auto sales and technology) as well as the political upheaval in the Middle East (which temporarily gave us $4.00 per gallon gasoline) created a drag on our growth. There is never a guarantee that those type of events cannot happen again or something else unanticipated occurs, but those events in particular had an economic impact last year.

All of the economic, investment, and political turmoil has taken a toll on the psyche and confidence of investors and savers, especially those in or near retirement and seeking income. In August, consumer confidence reached the lowest level since November 2008. Below is an interesting chart[1] showing the one year performance of the stock market in the 12 months following either a peak or a bottom in consumer confidence. In the white box in the top left corner, you can see the average performance. Since 1972, the average return is a meager 1.1% after a peak in confidence, while following a trough, the average return is a robust 23.3%. Let's hope it is accurate this time!



CONCERNS

While we may be aging well generally, our finances are not. Wages have been stagnant for several decades and people fueled a lot of the consumption over the last 20 years by borrowing against the rising equity in their homes. In retrospect, this was not such a good idea and we now find the initial wave of boomers (the first of which turned 65 last year) needing a high rate of return on a less than ideal amount of savings. At the moment, those returns are difficult to get in markets that remain volatile. The same interest rate environment that is supposed to help spur growth in a number of areas like housing, large retail purchases, and business expansion leading to higher employment also results in conservative investors struggling to find investments that pay an acceptable low-risk rate of return. While they may fear the risk inherent in investment markets, they also cannot live the life they want on the rates of interest now available.

Banks today are paying interest rates that are below the rate of inflation, not including the further erosion caused by income taxes. It is difficult to find any credible projection that rates will increase anytime soon. The economy is not growing fast enough to absorb higher borrowing costs and there is currently little inflation. Almost 40% of the federal budget deficit is financed using debt that matures in one year or less (US Treasury). Expect some political pressure to keep rates low to avoid a significant increase in the budget deficit in an election year. There is a big benefit to the low rates (combined with current wages and current home prices) with housing being more affordable than at any time since 1963, according to JP Morgan.

The concerns that we hear from clients, professional advisors, and our peers throughout the US are right in line with many national polls from those age 50 and older. For example:

- 66% of Americans rank not having enough money to retire as their number one concern (up from 53% 10 years ago). People fear running out of money more than they do dying.
- Confidence about being able to achieve a comfortable retirement is at its lowest level in 20 years, according to EBRI, a Washington firm that studies retirement plans for US workers.
- According to the US Labor Department, over 31% of those ages 65-69 are still in the workforce compared to 21% in 1990.
- In a 2010 survey, 25% of workers said they would never retire. Some may not because they enjoy work and are still capable of doing it at a high level, but many of those likely will work because they must.
- The trend towards longer work has already begun with the average retirement age currently at 64. Twenty years ago it was 62. Perhaps most sobering: over 50% of US workers have no employer provided retirement plan.

We have developed a number of strategies that address the lack of a strong interest rate market that we have been using and will continue to use in the future.

Long term, we are very confident in the resiliency of our economy and the industriousness of our workers and the companies that employ them. Many of the best known and respected companies, including Merck, IBM, Disney, McDonalds, Walmart, and Microsoft began during periods of recession.

Leading businesses are not short-sighted and today many are flush with record amounts of cash due to record earnings. They are anticipating and preparing for an economic recovery and will be poised to expand globally when the time is right. A recurring investment theme for us has been global diversification as much of the economic growth in the future is expected to come from outside of the US's borders. Many leading US companies already derive more than 50% of their sales from outside the US, and we believe this trend will continue.

News At EWS

- In November, the team at Eagle Wealth Strategies was named one of the Philadelphia area's leading wealth managers by the National Association of Board Certified Advisory Practices (NABCAP) as featured in articles in the Philadelphia Business Journal and a special supplement in Philadelphia Magazine. NABCAP is the first non-profit organization created to establish mutually understood standards and practices among both investors and advisory practices. There were sixty-six Delaware Valley practices that received this recognition, only 14 of which were from New Jersey. Less than 3.5% of Philadelphia area practices were selected. Needless to say, we are very pleased to have been included.
- Steffanie and Mike experienced the birth of their first child, Landon, on December 7. All are doing well and Steff will be returning in mid-February.
- On October 16th we hosted our 3rd women's dinner, featuring Dr. Kathleen Greatrex, chief of radiology at Lourdes Health System, who spoke on a variety of diagnosis and treatment options for breast cancer. Ten of the ninety women in attendance were cancer survivors so it was an emotional and educational evening and we received quite a few nice comments and letters from those who were there.
- We are in the planning phase of a number of events this year and expect to announce several of these in the next month. We have polled a number of you and have gotten feedback on a variety of topics of interest that include investing for lifetime income, longevity concerns and how to be properly financed, and healthcare and long-term care costs for older people. We are seeking experts to help us address these issues on behalf of our clients.
- We are moving to new offices this spring. We will be relocating to the Peachtree Professional Building at 877 Kings Highway (across from Westwood Golf course) sometime in April or May. We have enjoyed our 23 years in Woodbury but we now have a need for more space and a first floor facility to accommodate our growing clientele.

IN THE COMMUNITY

As you know, we have a policy where we make a donation to a charity in the name of a person who has introduced us to someone who becomes a client. In 2011, we made donations to the following organizations:

- Underwood Hospital Foundation
- Copper Hospital Foundation
- Pretty in Pink Foundation
- American Heart Association
- American Cancer Society
- United Way of Gloucester County
- People for People Foundation

We also are personally active and invested in a number of community organizations, including:

- Rowan University Foundation (**Paul**)
- Women's Leadership Council of the United Way of Gloucester County (**Steff**)
- United Way of Gloucester County Founders Society (**Chris**)
- Boys and Girls Clubs of Gloucester County (**Chris**)
- Young Professional Network of Greater Philadelphia Chamber of Commerce (**Chris**)

SUMMARY

In closing, we are expecting continued, modest improvement in most areas of the economy and are hopeful that this improvement results in a good year for investors. At the same time we will continue to be proactive in seeking solutions to the issues that confront our clients and their advisors as they attempt to meet the challenges of funding long retirements (including healthcare), lifetime income, college educations, charitable endeavors, and accumulation of funds for a variety of personal goals.

Please call any of us with concerns or with ideas for educational events that you would like to see us hold.

Best wishes for a wonderful 2012 full of good health, personal and professional success, and an improving economy and investment climate!

As always, we very much appreciate your continued confidence and trust.

Best regards,

Paul J. Tully	*Steffanie A. Lerch*	*Christopher T. Tully*
CERTIFIED FINANCIAL PLANNER™	CERTIFIED FINANCIAL PLANNER™	CERTIFIED FINANCIAL PLANNER™

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Inclusion of these is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the US stock market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow", is an index representing 30 companies maintained and reviewed by the editors of the Wall Street Journal.

Chart#1: Sources – University of Michigan, FactSet, J.P. Morgan Asset Management. Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs. Subsequent 12-month S&P 500 returns are price returns only, which excludes dividends. Data reflect most recently available as of 12/31/2011.

Opinions expressed in the attached article are those of the author and are not necessarily those of Raymond James.

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