



MARKET COMMENTARY

First and foremost I hope each of you had a wonderful holiday. It is important that everyone take time to give thanks for the many blessings we each have. Happy New Year.

Around this time of year, it is common in the financial community to measure performance. It really is no different than football or other sports where men want to measure their performance against one another. The financial industry measures itself against the major indexes as a reference point.

I always find it interesting that firms can find ways to manipulate the stats and present a picture that is favorable in almost any situation. But as I look at the many funds and manager reports that I subscribe to, I am struck by the fact that they mostly only measure the “up” information. In other words, “fund XYZ was up 3.5% this year vs. the S&P500 that was down -2.3%” or one of my favorites is “fund ABC beat its Lipper Average by 4.5%”. What is a Lipper Average anyway? (I had to look it up on Wikipedia. It is series of indices that establish a benchmark to measure the performance of mutual funds and exchange traded funds). This only gives us part of the picture though. It doesn't address what their performance was in the bad or “down” times.

Has anyone ever seen an advertisement that says a fund was “ONLY down -20% last year”? Stop and think about it, if the Lipper Average for a sector was down -30% (as many were in 2008) and your fund or manager was down -20%, then they would apply the positive spin and simply advertise that they “beat the average by 10%”. But this still means you, the investor, lost -20%. What a comfort that is.

It is often quoted that Warren Buffet's number one rule in investing is “don't lose money”. While I don't consider myself a sage or even the smartest guy in the room, one of the core philosophies that we hold to is the protection of capital. In the past twelve years, our record of only one year of negative performance (2008 over all we were -0.6%) stands out against any measurement. Our average over this same time period is +12% per year.

I don't like to spend a lot of time pushing performance statistics, but rather what our core philosophies are and how they benefit each customer. We spend time each and every day looking for opportunities to improve your account performance and protect it from the incredible volatility of today's market so that your money will be there when you need it. I don't know what the new year will bring to the markets, but I do know that long term success depends on our ability to avoid deep losses and to take advantage of low-risk opportunities. As soon as trading patterns emerge in the new year, we will be better able to determine if there has been a shift in the market and how we might take advantage of it. I expect 2012 to be a dynamic but challenging year with significant opportunities.

If you have any questions about your account or how we might help you, please do not hesitate to call.

PRIME NUMBERS — *Current Facts from Around the World*

14% The percentage of Americans who admit to misbehaving in stores during the holidays, including cutting in line, fighting over a parking space or physically fighting over an item.

1.3M The number of high-definition TVs over 60 inches expected to be sold in 2011, up 50% from a year ago.

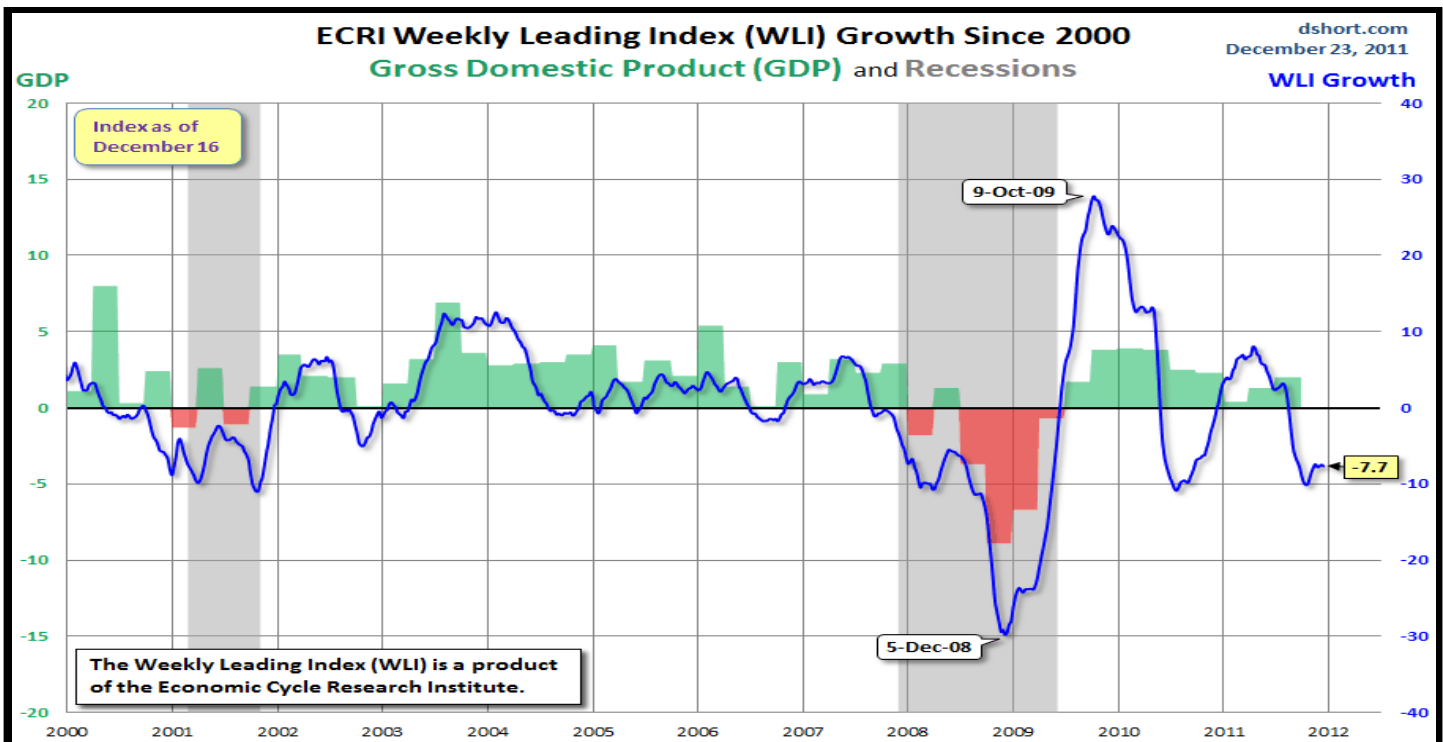
\$10T The sum of all deposits held by banks insured by the Federal Deposit Insurance Corp. as of Sept 30, the first time the total has hit 14 digits. (\$10,000,070,199,000)

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Above is a chart of the Weekly Leading Index Growth from the Economic Cycle Research Institute (ECRI) as posted on www.dshort.com.

The Fed and many economist are forecasting gradually improving economic conditions through the coming new year. Early last week, ECRI notified clients that the US economy is tipping into a new recession if it is not already there.

“ECRI’s recession call isn’t based on just one or two leading indexes, but dozens of specialized leading indexes, including the U.S. Leading Index, which was the first to turn down—before the Arab Spring and Japanese earthquake—to be followed by downturns in the Weekly Leading Index and other shorter leading indexes. In Fact the most reliable forward looking indicators are now collectively behaving as they did on the cusp of full blown recessions, not soft landings.”

A significant decline in the WLI has been a leading indicator for six of the seven recessions since the 1960’s. It lagged one recession (1981-1982) by nine weeks. The crash of 1987 took the Index negative for 34 weeks with a trough of -6.8. The Financial Crisis of 1998, which included the collapse of Long Term Capital Management, took the indeed negative for 23 weeks with a trough of -4.5. The current level is -7.7.

“Negative economic growth will probably be registered in the US during the fourth quarter of 2011, and in subsequent quarters in 2012. Though partially caused by monetary and fiscal actions and excessive indebtedness, this contraction has been further aggravated by three current cyclical developments: a) declining productivity, b) elevated inventory investment, and c) contracting real wage income.”

In December 2007, just as the Great Recession was starting, the consensus of economist was for real GDP growth of 1.9% in the first half of 2008, with a jump to 2.8% in the second half. Given their track record, it appears the ECRI forecast may be more likely. Only time will tell.

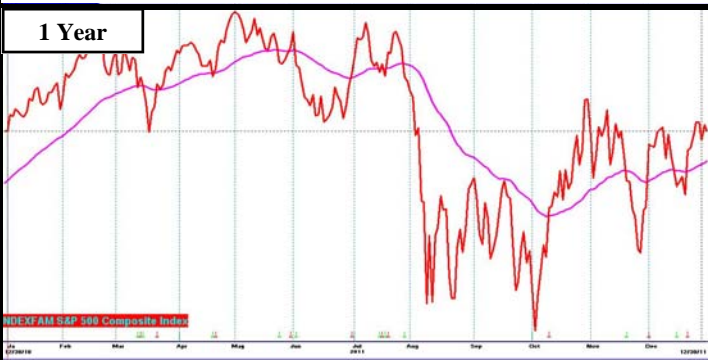
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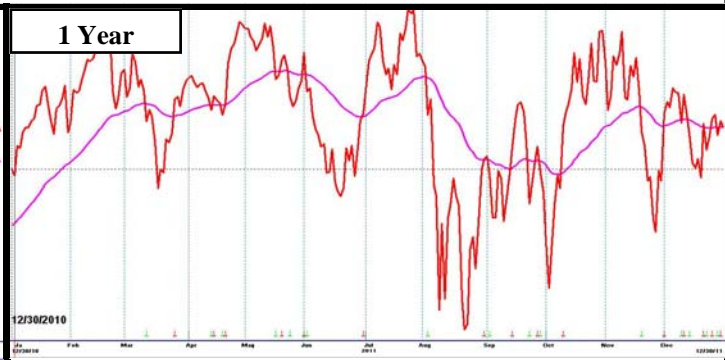
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MARKET SNAPSHOT

Each month at the bottom of the last page I show four charts with the title Market Snapshot. These are a one year look at four of the primary indexes that we monitor for the health and trend of the overall market. While these four indexes may look the same at a casual glance, they in fact show very different areas of the market. When the trends of these different market indexes are going in different directions, it gives us a clue that something is changing in the market place. If one is substantially different than the others, it is either a leader and the others will soon follow, or it might just be that a part of the market is trying to change but is unable to break out in which case we will see that chart soon return to the trend of the remaining three. In either case, it is helpful to look at these charts for overall trends and changes in the market. The purple line is a 50 day moving average which helps to show the trend with out the volatility of the day-to-day activity.



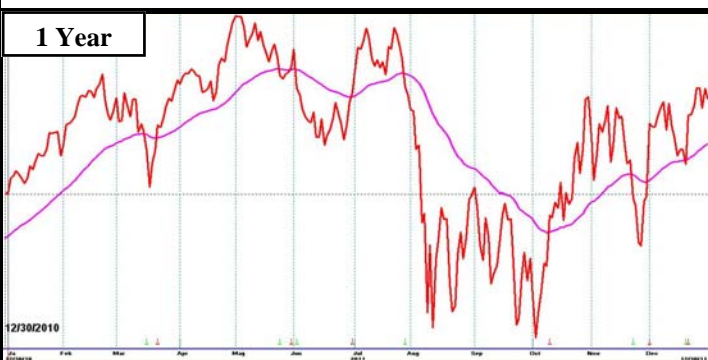
S&P 500 (SP-CP) w/ 50 day moving average



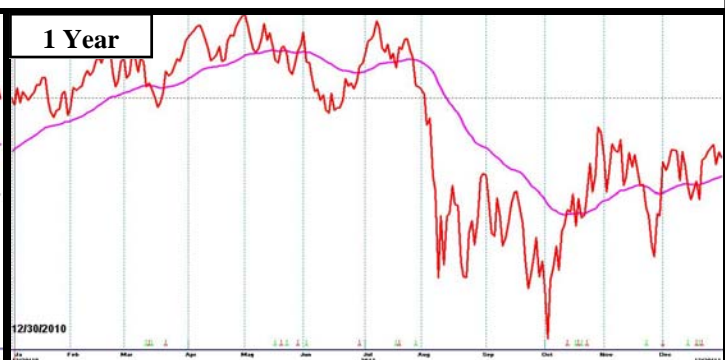
NASDAQ 100(NDX-X) w/ 50 day moving average

The S&P500 is an index of the top 500 large-cap companies listed on the NYSE and the NASDAQ. It is considered the bellwether for the US economy and is included in the Index of Leading Indicators. The S&P 500 has been published since 1957. This is a capitalization-weighted index.

The NASDAQ 100 is an index of the top 100 non-financial companies listed on the NASDAQ exchange. The NASDAQ tends to be dominated by “tech” companies and thus represents that part of the market. Bull market advances are more often than not, lead by the tech industries. This is a modified capitalization –weighted index.



Dow 30 (DJ-30) w/ 50 day moving average



Russell 2000 (RUT-I) w/ 50 day moving average

The Dow Jones Industrial 30 is an index of the top 30 companies from different sectors that are supposed to represent the overall economy in the US. Founded in 1896 it is the oldest of the indexes but is largely considered non relevant in today’s market. It is a price-weighted index of the component stocks.

The Russell 200 is an index of the bottom 2000 listed small cap companies. Since small companies are the major producer of jobs, this index tends to indicate the strength of a growing economy. This is a capitalization-weighted index.

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