



PRATT, KUTZKE & ASSOCIATES, LLP

January 2012

A Whole Lot of Nothing

Happy New Year! As you can see to the right, the final numbers are in and, for the year of 2011, the market did... nothing. The S&P 500 ended the year with a return of 0%. Of course, as we moved through the year, it was anything but uneventful...

Volatility reigned supreme throughout 2011. Prompted by a seemingly endless array of events—from the devastating earthquake and tsunami in Japan, the Euro debt crisis, and our own domestic issues; chief among them the debt ceiling debacle and constant political gridlock. The fourth quarter continued the roller-coaster ride. October started out strong as we rebounded from a weak third quarter, only to give up nearly all of those gains in late November. December brought positive movement, but stagnated as the month came to a close.

Despite the volatility and massive headwinds, we did make some progress—if not in the market, at least in the overall economy. Private job creation was up significantly in 2011 over 2010 and recent jobless claims came in at the lowest level in three years. Corporate profits have gone up and associated debt is near record lows, giving us corporate fundamentals that are surprisingly strong. When looking at those items, it seems there is a disconnect between how fearful everyone is and what's really happening.

Job growth will likely continue to show slow, but steady, increases. The global natural disasters over the past year highlighted some of the risks associated with extended supply chains. That, coupled with rising wages abroad (China alone increasing 15%/year), increases the likelihood that manufacturers and service businesses will locate within the U.S., further aiding the job situation.

Shelby C. Davis, a legendary investor and founder of the Davis Investment Discipline stated, "You make most of your money in a bear market, you just don't realize it at the time." Though it does not seem evident now, these time periods can be very profitable to those who are currently adding to their investments. Those investing through work retirement plans, or automatically each month, benefit from the volatility by buying a larger amount of shares each time the market dips. This lowers the overall average cost per share and increases the potential gains when the market grows.

For those who are no longer adding to investments, hold tight. The bond market provided some positive returns throughout 2011 and will hopefully continue. The historically low interest rate environment has made traditional safe havens (bank savings, CDs, etc.) far less viable. A diversified portfolio represents our best chance of maintaining and growing for the time being.

Moving forward, we expect a lot of the same for 2012. International issues will continue to dominate and U.S. political deadlock and inaction will remain the norm as the focus shifts to the upcoming elections. The media will continue to over-hype everything and make it especially difficult to remain disciplined.

As always, please contact us if you have any questions, comments or concerns.

Regards,

The PKA Team

Market Update

A quick glimpse at the market for the fourth quarter and year of 2011:

	<u>Q4</u>	<u>2011</u>
DOW:	+11.95%	+5.53%
NASDAQ:	+7.86%	-1.80%
S & P 500:	+11.15%	0%

Tax Documents

Once again, 1099s for brokerage accounts (Pershing/Woodbury Financial accounts) will not be mailed out until mid-February. Please plan tax appointments and filings appropriately.

PKA News

Our PKA family is growing once again! We welcomed three little girls over the last few months—all from our N. Mankato office team. Melissa (& Jeff) Mackie welcomed Malia, born on July 23. Bryan (& Kari) Pratt, welcomed Celia, born October 20, and Katie (& Korey) VanErdewyk, welcomed Ella on November 29!

Market Stats

Over the last 50 years, the S&P 500 has been "up" 53% of the days and "down" 47%. 2011 beat that average with 55% of days being positive, but still could not finish positive for the year.

Pratt, Kutzke & Associates LLP • 1651 Commerce Drive, North Mankato, MN 56003 • 800.390.0770 • info@pkallp.com

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