MITCHELL MCLEOD PUGH & WILLIAMS
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The End of the Recession

In September 2010, the National Bureau of Economic Research announced the long-awaited news: an end date for the recession that had begun in December 2007. The NBER determined the official end date as June 2009, quieting down (if not completely silencing) double-dip fears. NBER defines a recession as a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. Looking back at the performance of the main asset classes during the recession and in the months following the official end date, gold was the best overall performer, and long-term government bonds offered consistent positive returns. Out of the investments with the worst performances during the recession, REITs posted the most-impressive return in the 16 post-recession months.

Returns During and After the Most Recent Recession

	Recession Dec 2007 to Jun 2009*	Aftermath Jul 2009 to Oct 2010*
Gold	19.3%	44.1%
Long-term government bonds	8.4%	14.5%
Treasury bills	1.9%	0.1%
Small stocks	–33.8%	42.5%
Large stocks	–35.5%	32.2%
International stocks	–39.7%	28.4%
REITs	–48.1%	81.8%

Returns in table represent cumulative returns during time periods indicated, not geometric returns.

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Holding a portfolio of securities for the long term does not ensure a profitable outcome, and investing in securities always involves risk of loss. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, liquidity risks, and differences in accounting and financial standards. REITs are subject to certain risks, such as risks associated with general and local economic conditions, interest rate fluctuation, credit risks, liquidity risks and corporate structure. Small stocks are more volatile than large stocks, are subject to significant price fluctuations, business risks, and are thinly traded. Government bonds and Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks, REITs, and gold are not guaranteed.

Source: Gold—Wall Street Journal London P.M. closing price. Long-term government bonds—20-year U.S. government bond. Treasury bills—30-day U.S. Treasury bill. Small stocks—Dimensional Fund Advisors, Inc. (DFA) U.S. Micro Cap Portfolio. Large stocks—Standard & Poor's 500® Index, an unmanaged group of securities considered to be representative of the U.S. stock market. International stocks—Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE®) Index. REITs—FTSE NAREIT Equity REIT Index®.

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Kyle is a Managing Director and founding member of the firm. He serves as the Chief Investment Officer and head of the Investment Policy Committee. He has been engaged in the financial services and investment management industries since 1988. During this time, he has held management positions in retail and commercial banking, served as a co-portfolio manager for a mid-cap equity mutual fund, and as manager for various individual, corporate, trust, profit sharing and 401k accounts.

Kyle holds a Bachelor of Science degree in Business Administration from The Citadel and an MBA from the Manderson Graduate School of Business at the University of Alabama. He is a member of the CFA Institute and the CFA Society of Alabama.

Born in Mobile, Kyle is a lifelong resident and is married with three children. He is a 1999 graduate of Leadership Mobile, a board member for the Greater Mobile Development Corporation, the UMS-Wright Bulldog Athletic Association, and is a member of the Board of Advisors for the Mobile Area Chamber of Commerce.

Monthly Market Commentary

The economy ended 2010 on a high note, with positive data from a range of indicators such as retail sales, auto sales, inflation, and manufacturing. Clarity on the extension of the Bush tax cuts and unemployment benefits, sharply improved markets, and new stimulus money (in the form of a 2% cut in the payroll tax) should give consumers even more cash to spend. Inflation also remained well under control--consumer prices increased by about 1% on a year-over-year basis, as they have for the past several months. However, recent jumps in food and energy prices could potentially mean that we have seen the low for year-over-year inflation growth for this cycle. The number of jobs created was disappointing, but the unemployment rate was better than expected.

Consumer confidence: The consumer confidence index posted an unexpected decline last month with 46.8% of consumers sampled saying jobs are hard to come by. This report was the worst reading since February. The survey is compiled to determine consumer attitudes on present economic conditions and future expectations.

Consumer spending: Holiday retail sales as reported by MasterCard and the International Council of Shopping Centers, revealed an increase in consumer spending. MasterCard indicated that holiday sales increased by 5.5% (measured from early November until Christmas Day) led by jewelry and apparel. Luxury goods vendors such as Saks and Nordstrom did exceptionally well while those serving the lower end of the market, like Gap and Target, showed lower rates of growth. The key issue in the months ahead is whether consumers will continue to spend post-holiday season. Consumer spending growth beyond January and February would have to come from growth in employment, hours worked, and hourly wages.

Snowstorms in the Northeast impeded sales during the critical post-Christmas shopping season. A look at sales numbers for October, November, and December in aggregate, revealed an increase in sales of about 3.5% per month on average, a modest improvement from the 3% gains that characterized most of the rest of 2010.

December was a positive month for new U.S. light-vehicle sales. The results were the best monthly results of 2010 with an 11% increase in total sales from December 2009. The full-year sales also increased 11% with total of 11.6 million units sold.

Employment: The recent jobs report was disappointing, with employment growing by 103,000 jobs, barely above the 94,000 average of the past year. On the positive side, the unemployment rate dropped to 9.4% from 9.8%, a 19-month low.

Quarter-end insights: According to Morningstar economists, the economy could move into a stronger and more sustainable recovery mostly led by acceleration in consumer spending. This could result in a forecasted GDP growth estimated at 3.5% for 2011. The lifting of many hiring bans and salary freezes at the turn of the year combined with a great holiday season and better sentiment may drive job growth of 200,000 to 300,000 by the middle of 2011.Morningstar economists predict a continued growth in emerging markets, a stronger U.S. economy, and rising commodity prices that could drive inflation up by 2% or more.

The Morningstar equity sector team predicts a slightly more bullish 2011 on a fundamental basis, though most teams believe their stocks are close to fair value. Further, merger-and-acquisition activity remains strong across all sectors. According to Morningstar's technology team, there may be dramatic increases in business capital spending, especially for software. The industrial team expects a substantial improvement in capital spending in the years ahead.

Common Investing Mistakes

Almost all of us have made investing mistakes. The key is not to make the same mistake twice. These mistakes can directly affect whether or not you achieve your desired goals. By repeating even just one mistake, individual investors can quickly become their own worst enemy. Below are some common mistakes that many fall prey to and some suggestions on how to sidestep them.

Starting Too Late

The first mistake a large number of investors make is waiting too long to initiate a long-term investment plan. The earlier you can start the investment process, the more likely it is that the plan will succeed. For example, let's consider two investors—Bill and Tim. Bill began investing $5,000 per year 30 years ago. Tim began investing $10,000 per year 20 years ago. Assuming a hypothetical return of 10% per year, Bill's ending wealth value was $822,470 compared to $572,750 for Tim. Thanks to the power of compounding, a small amount of money, wisely invested early on, can turn into a large sum over time. Avoid procrastinating; start investing today.

Lack of Diversification

By investing all of your money into just one asset class, industry, or company, you are placing all of your eggs into one basket—and this can be extremely risky. It is better to combine a variety of investments, such as stocks, bonds, and cash, which are unlikely to move in the same direction. Your risk exposure should be lessened as a result.

Chasing Past Performance

Yesterday's hot stocks or mutual funds may not be today's best investments. A good number of investors purchase assets when they have already reached their peak, only to watch their performance subsequently suffer. It may be a good idea to choose investments with a history of good performance as well as quality management.

Lack of Research

No matter what type of investment you plan to make, be sure to conduct the proper research. It is unwise to allocate your money to an investment you do not understand. There are a number of helpful resources that you can explore—ranging from public information to professional advice. Take advantage of these when possible.

Unrealistic Expectations

Many investments require time to grow. Investors often become frustrated with the early performance of their investments, decide to sell too quickly, and move the proceeds into other investments. This will result in too much trading, which is not only expensive, but also usually unnecessary. It is important to maintain a long-term view and to not be distracted by short-term results.

Overconfidence

Confidence is a good thing, but overconfidence can cause investors to improperly select investments. Too much assurance in one's knowledge and ability can lead investors to focus on the upside and deemphasize the potential downside of investments. Instead, a solid financial plan constructed by a professional can go a long way.

Our Five Year Anniversary

On January 20, 2011, we observed the 5th anniversary of the founding of our firm. According to the Small Business Administration, over 50% of new businesses fail within the first five years of their existence. We are proud of the fact that we not only have survived, but we have experienced continued growth - both in the number of clients that we serve and in the total assets under our investment management. As this is being written, our firm has approximately $340 million under management; in addition, we serve as investment adviser to 401-(k) plans with assets of approximately $53 million. This makes our firm one of the largest independently-owned investment advisory firms in Alabama and on the Gulf Coast between New Orleans and Tallahassee. We believe this growth is attributable to several factors. First, we have operated our firm with the strong conviction that an organization providing investment advisory services could best serve its clients as an independently-owned firm, free from potentially conflicting proprietary funds or products and devoted solely to the best interests of its clients. In other words, we have a fiduciary responsibility to each client. Second, the members of our firm, who have been engaged in the financial and investment management industry for a combined total of over 100 years, always strive to provide the highest level of client service. Third, we are determined never to lose sight of the ultimate goal of our firm which is to work with clients to achieve their long term investment objectives. We know that meeting that goal requires the dedication to provide superior investment returns, a high level of client service and an absolute adherence to the firm's fiduciary obligations. If we always remember those things and endeavor to live up to them, we believe not only that our clients' investment goals will be achieved but that our firm will continue to grow and prosper in the years ahead. To all of our clients, thank you for your continued support. We are humbled by your loyalty, by your confidence in our firm and by the many referrals that you have made to us over the last five years.

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