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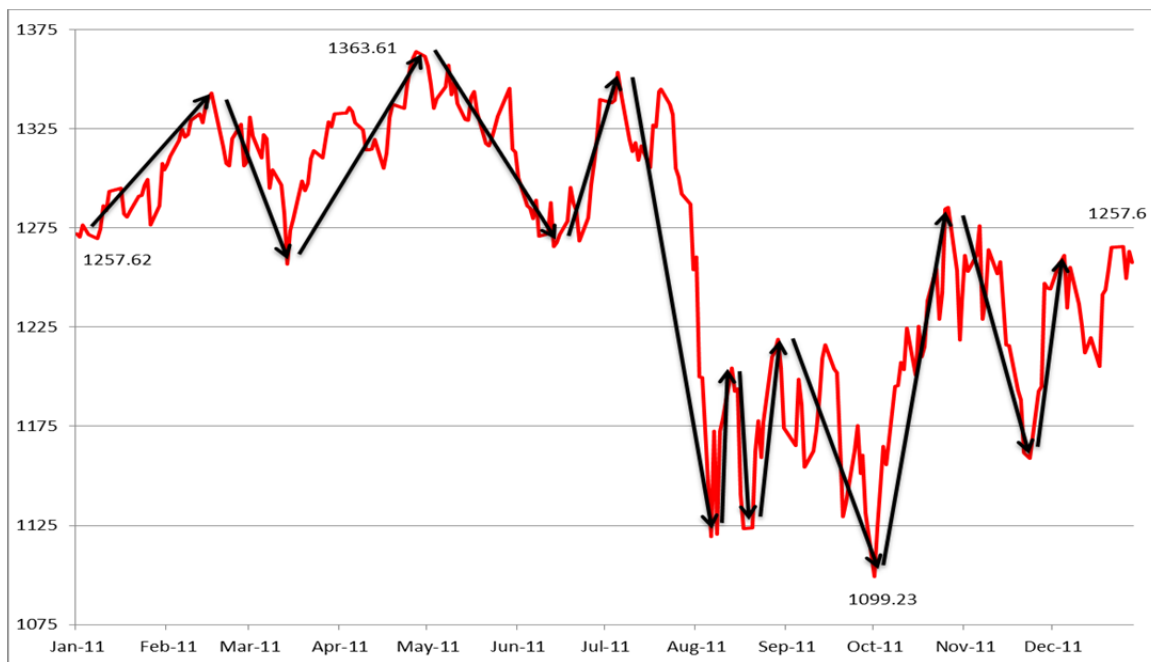
2011 – An Anomaly?

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The Merriam-Webster dictionary provides the following definition for the word *anomaly*; “something anomalous: something different, abnormal, peculiar, or not easily classified”. Looking back at the economic, political and market activity of 2011 one would think it could be described as an anomaly. I hesitate to label a market’s action as odd, or unusual, because markets by their nature will always be independent, potentially odd and unusual. Be that as it may, 2011 certainly goes down as a rare year.

A major cause for this anomalous market activity was the rarely seen occurrence, at least in modern times, of a large portion of an entire continent – Europe – running the risk of sovereign debt default. More and more investors are finding themselves bewildered by political decisions and the associated investment market activity.

Chart 1 - 2011 S&P 500 Index / 13 Countertrend Moves of Approximately 7% or Greater



How bewildering was 2011? I thought it good to note two specific market anomalies:

1. The S&P 500 Index started the year at 1257 and ended the year at 1257, with the actual return being -0.003%. The S&P 500 Index has never had such a small calendar year price change – basically zero change without including dividends. Major international equity markets fared much worse, with returns ranging from -5% to -22%.
2. Even though the S&P 500 Index finished where it started, it experienced thirteen countertrend moves of approximately 7% or greater, with the average absolute move equal to 9.33%, as shown in Chart 1 above and Table 1 below. The average duration of these countertrend moves was five weeks. Our review of the history of the S&P 500 Index could not find a similar high countertrend volatility period.

Table 1 - 2011 S&P 500 Index / 13 Countertrend Moves of Approximately 7% or Greater

	Start Date	End Date	% Move	# of Days
1	12/31/2010	02/18/2011	6.79%	49
2	02/18/2011	03/16/2011	-6.41%	26
3	03/16/2011	04/29/2011	8.49%	44
4	04/29/2011	06/15/2011	-7.20%	47
5	06/15/2011	07/07/2011	6.94%	22
6	07/07/2011	08/08/2011	-17.27%	32
7	08/08/2011	08/15/2011	7.60%	7
8	08/15/2011	08/19/2011	-6.72%	4
9	08/19/2011	08/31/2011	8.49%	12
10	08/31/2011	10/03/2011	-9.82%	33
11	10/03/2011	10/28/2011	16.91%	25
12	10/28/2011	11/25/2011	-9.84%	28
13	11/25/2011	12/07/2011	8.83%	12

- Average Number of Days between Each Countertrend Move = 26 days
- Average *Absolute* Percentage Countertrend Move = 9.33%

Here is a brave prediction - we expect this market activity not to repeat in 2012!

What are investors and their advisors to do? Continue to seek investment solutions that are non-correlated to the volatility displayed in the above chart and table. This means true diversification in portfolios, not just diversification achieved by having “many” investments in a portfolio. Advisors and their clients must ask, “Am I truly diversified?” Do my investments all head in the same direction, or do they vary in direction depending on the then-current market conditions, with all of them ultimately set up for gains over the long-haul? Some assistance in answering the diversification question is to see if your portfolio has any Tactical Asset Allocation strategies, alternative investments and more. As the New Year begins, this is an opportune time to contact your advisor and schedule a time to discuss your account(s), personal information and any changes that may have occurred to your time horizon and investment objectives. Ask, “Am I truly diversified?”

Let’s hope the word anomaly is not used to describe 2012 at this time next year – unless of course it is anomalously a great one!



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