**JAN 2012 THRU MAY 2012 NEWSLETTERS**

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**MAY 2012 NEWSLETTER ARCHIVE**

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***From the Desk of Bob Centrella, CFA: May 29, 2012***

***"The Countdown - Three Weeks and Counting"***

Dear Friends,

I hope everybody had a nice Memorial Day weekend including remembering our Veterans that gave their lives for our great country. One quick fact, Memorial Day (first known as Declaration Day) originated after the Civil War to commemorate the Union soldiers who died in that war. Remembrances, BBQs, golf, sports, water, beach - it gave us a brief respite from the overseas news that has been dominating the business headlines.

Last year I began writing about the hostage crisis, meaning that investors were being held hostage by the daily news out of Europe. Well, guess what? The hostage crisis is back and now there is a fixed date when we get a partial answer - June 17. That is the date of the next Greek election, where the leftist party is trying to unseat the current party that favors austerity measures and a bailout. On top of the Greek news, Spain now appears to be back in the crosshairs after the country was forced to give over $24 billion to rescue Bankia, one of its largest banks. Spanish bond yields are again on the rise and its stock market has dropped 25% this year.

Meanwhile, back here in the good old US of A, US stocks finally pulled out a winning week with the S&P 500 gaining 1.7%, the Dow rising .7% and the NASDAQ gaining 2.1%. Still, the Dow has been down 15 of the past 18 trading days. Last week I mentioned that perhaps we were due for a bounce and with the end of the month approaching we may be able to extend last week's gain another week (again, it depends mostly on the news out of Europe). Most impressive during the week was Wednesday when the Dow bounced from being down about 200 points to closing higher at the end of the day.

Last month I also talked about the "Wall of Worry" that investors face. I'd like to update the wall with some new and additional information.

This is a snapshot of most of the big issues on investors' minds.

* Greece election looms and its place in the Euro economy is in peril. The news out of Greece has gotten worse in the past month.
* Ripple effects - Spain is again in trouble and its banks are extremely weak and vulnerable. Italy, Portugal and Ireland loom in the background. Will there be a contagion?
* The Fed's Operation Twist winds down at the end of June. Will there be a QE3? No answer yet.
* China's economy is slowing but there are now hopes of a new China stimulus plan
* India's economy has slowed depriving the developing world of another growth engine.
* The recession will likely hit the EU the hardest in the summer. Seven of the 17 EU countries are now in recession. Overall unemployment is about 11%.
* The US election looms in November and talk of the Fiscal Cliff we face will dominate the headlines. The potential fallout form the fiscal cliff is a big deal! Don't overlook it.
* The US economy is still fragile but housing news has been good lately. Will there be a double dip if Greece leaves the Euro and the contagion spreads?
* On the positive side, Oil prices have declined and could give a boost to GDP if they stay in the $90s.
* Corporate profits were stronger than expect in the first quarter.

Here are some facts about the European economy that I picked up out of various articles I read. Eurozone imports (US exports to EU) are 2% of US GDP. Eurozone imports to the rest of the world are 5% of global GDP. The EU is the US's 3rd largest export market accounting for 15% of American goods and services sold abroad. EU imports account for 3% of global GDP and 22% of EU GDP. So, the point is that a Euro recession is a big deal but actually may not be as devastating as the market anticipates. Remember that the EU economy will not come to a complete standstill. There will still be pockets of growth and consumption. So the effects on the world will be a percentage of its capacity, not the full effect.

Finally, the Facebook update. The stock dropped again and this has really been a sh--show. Terrible job by the underwriters and many are coming out talking about how overvalued the company is. You may want to stay away until the dust settles.

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**Economy**

Existing home sales rose 3.4% in April to an annual rate of 4.62 million units; basically matching the consensus expected 4.61 million units. Sales are up 10.0% versus a year ago.

The median price of an existing home rose to $177,400 in April (not seasonally adjusted), and is up 10.1% versus a year ago. Average prices are up 7.4% versus last year.

New single-family home sales increased 3.3% in April, to a 343,000 annual rate, beating the consensus expected pace of 335,000. They are now up 9.9% from last year.

New orders for durable goods increased 0.2% in April, matching consensus expectations. Orders excluding transportation fell 0.6%, coming in below the consensus expected gain of 0.8%. Overall new orders are up 6.9% from a year ago, while orders excluding transportation are up 6.3%.

New claims for unemployment insurance dipped 2,000 last week to 370,000, matching consensus expectations. Continuing claims for regular state benefits fell 29,000 to 3.26 million

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** .74% 1.70%. Rates ticked up a bit as stocks gained

**30-yr UST** .84% 2.80%

**ML High Yield 100** 7.30% 7.00%. High Yields are attractive.

**30-yr Fixed** 3.97% 3.89%.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1569 $1591 Gold is not acting like a safe haven hedge.

**Crude Oil** 90.86 $91.48 Oil talk of reaching the $80's

**NYMEX Nat Gas** $2.568 $2.74

**$ per Euro** 1.25 1.278 Talk of 1.20 next stop.

**Yen per $** 79.69 79.01

**Stocks**

Stocks gained during the week. Small and midcap stocks gained most. The S&P 500 rose 1.7% to 1317.82 while the Dow rose .69% to 12454.

European stocks fell hard with the Euro Stoxx 600 dropping 5.2%.

Asia/Pac stocks fell sharply with the DJ./Asia index down 5.0%. Japan fell 3.82% while Hong Kong shed 5.07% and is down 10% in 2 weeks

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 12,454 | 85.45 | .69% |
| **S&P 500** | 1317.82 | 22.60 | 1.7% |
| **NASDAQ Comp** | 2837 | 58.74 | 2.11% |
| **S&P Mid Cap** | 934.56 | 29.28 | 3.23% |
| **S&P Small Cap** | 430.95 | 7.85 | 1.86% |
| **Russell 2000** | 766.41 | 19.20 | 2.57% |
| **Euro Stoxx 600** | 242 | +3 | 1.2% |
| **Dow Asia/Pacific** | 116.3  | -  | 0% |

|  |  |
| --- | --- |
| **Strong Sectors** | Basic Material, Consumer Services, Industrials |
| **Weak Sectors** | Telecom, Utils, HC |
| **NYSE Advance/Decline** | 2495 / 690 |
| **NYSE New High/Low** | 73 / 175 |
| **AAII Bulls/Bears** | 30.46 / 38.67% Bulls recover a bit |

Have a great week!

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***From the Desk of Bob Centrella, CFA: May 21, 2012***

***"It's Deja vu All Over Again"***

Dear Friends,

I hope you all had a fantastic weekend. Once again the weather was great and I know I took advantage of it. It helped put the poor week of market action in the back of my memory. Speaking of which, last week was by far the worst of the year across the globe. Equity markets around the world fell between 4% to 8% in an ugly but orderly fall. Here in the US, the DJIA dropped 3.5% while the S&P 500 fell 4.3% and the NASDAQ fell 5.28%.

One of Yogi Berra's more famous Yogi-isms was the quote "It's Déjà vu all over again". He said it supposedly to describe watching Maris and Mantle repeatedly hit HR's during the season when Maris broke the HR mark and Mantle was right on his tail. (Yes, that's the pun, Déjà vu is all over again.) Regarding this market and Europe, doesn't it seem like Déjà vu - all over again? I mean we just went through this Greek situation last summer and into the fall and here it is again. Basically the same issues -- Contagion fears are back as investors ponder whether Greece will have to leave the Euro and will there be cataclysmic repercussions. Greeks now won't accept the austerity plan they were forced to accept and Europeans (ie, Germany) won't give them anymore money unless they take their prescribed medicine. The problem for the Greeks and they don't seem to get it - THEY ARE BROKE! Listen Greece - you have a huge budget deficit, no way of raising money by yourself and you have no money to pay your civil servants or your bondholders. You can't leave the Euro to bring back a Drachma nobody will want. That is why I believe the odds favor them staying in the Euro and eventually accepting a new plan.

Since Europe reclaimed the headlines, the S&P 500 is down about 8% from its April peak and back to levels seen in January. Since the S&P closed at 1405 on May 1st, it is down 11 of 13 sessions including the last 6. Also, it has been an orderly selloff, not a massive sell-off followed by volatility. However, during this same time, the VIX index (market fear gauge) is up a stunning 51% to 25.10 since May 1st. Looking back 1 year ago, the VIX moved from a similar level to as high as 47 while the market was in free-fall. So, we haven't reached panic selling yet. As a grim reminder, last July and August the S&P fell 10 of 11 sessions going from 1350 to 1119 (-17%) while the VIX made its move. So, the potential bad news is that if it is indeed Déjà vu, then it can get a lot uglier.

I would be remiss if I didn't mention the Facebook Flop. The largest IPO ever turned into a real fiasco as Bankers got greedy and walked the IPO price up too high to $38. This even further enriched the billionaires that were created while burning investors. Today the stock is already down to $35 and this is certainly egg on the face of underwriters.

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**Economy**

The Consumer Price Index (CPI) was unchanged in April exactly as the consensus expected. The CPI is up 2.3% versus a year ago.

The Empire State index, a measure of manufacturing in New York, increased to +17.1 in May from +6.6 in April, easily beating the consensus expected gain to +9.0.

Retail sales increased 0.1% in April, matching consensus expectations, but were unchanged including slight downward revisions for February/March.

Housing starts rose 2.6% in April to 717,000 units at an annual rate, well above the 685,000 rate the consensus expected. Starts are up 29.9% versus a year ago.

New building permits fell 7.0% in April to a 715,000 annual rate, coming in below the consensus expected pace of 730,000

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.70% 1.79%. Traded below 1.7% as investors flock to safety

**30-yr UST** 2.80% 3.017 Below 3% for 30-years. Where is the reward??

**ML High Yield 100** 7.00% 6.55%. Investors were really in "risk-off" mode.

**30-yr Fixed** 3.89% 3.94%. If you haven't refi'd, do it!

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1591 $1583 Gold finally bounced off its lows.

**Crude Oil** 91.48 $96.13

**$ per Euro** 1.278 1.2917 Dollar strength continued with Europe and Greece woes.

**Yen per $** 79.01 79.88 Yen has been strong. Will BOJ intervene?

**Stocks**

Stocks fell broadly around the Globe as mentioned earlier

European stocks fell hard with the Euro Stoxx 600 dropping 5.2%. Spain fell 6.13%, Ital -7.09% and Sweden -7.05%. Germany lost 4.69%.

Asia/Pac stocks fell sharply with the DJ./Asia index down 5.0%. Japan fell 3.82% while Hong Kong shed 5.07% and is down 10% in 2 weeks

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 12,369 | -451 | -3.52% |
| **S&P 500** | 1295 | -58.17 | -4.3% |
| **NASDAQ Comp** | 2779 | -155 | -5.28% |
| **S&P Mid Cap** | 905 | -59 | -6.14% |
| **S&P Small Cap** | 423 | -21.6 | -4.86% |
| **Russell 2000** | 747 | -42.85 | -5.42% |
| **Euro Stoxx 600** | 239 | -13 | -5.2% |
| **Dow Asia/Pacific** | 116.6  | -6 | -5.0% |

|  |  |
| --- | --- |
| **Strong Sectors** | Telecom, Utilities, Consumer |
| **Weak Sectors** | Technology, Financials, Basics |
| **NYSE Advance/Decline** | 297 / 2906 |
| **NYSE New High/Low** | 90 / 259 |
| **AAII Bulls/Bears** | 23.6 / 426% positive contrary indicator |

Have a great week!

Bob

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***From the Desk of Bob Centrella, CFA: May 14, 2012***

***"A busy week it was -- (and see the article on the Fiscal Cliff we face)"***

Dear Friends,

I hope you all had a great Mother's day. We spent the day in NYC and had a great time. Weather was fantastic and even though my golf game lacked conviction on Saturday, I loved the great weekend weather. I almost didn't even mind driving 4 hours to pick up my daughter from college, packing her up and heading back. We also got a chance to see the Disney blockbuster movie "The Avengers" on Friday night. If you like the old action figures and are in the mood for some high-tech entertainment, I highly recommend that you take it in. I have to admit that we both enjoyed the movie and I think you will forget about life for awhile and like the action.

Speaking of action, there was plenty in the financial markets this past week. To give a quick rundown we had (1) a socialist elected in France, (2) a vote in Greece that weakened bailout support throwing their government close to even more turmoil, (3) strong earnings from US companies (except Cisco) to the point where 75% of companies in the S&P 500 reporting have now beat estimates, and finally (4) JP Morgan surprising everybody by announcing a $2 Billion trading loss due to the "Big Whale" trader in London. The JP Morgan fiasco probably stole the thunder from everything else but it appears that it is an isolated "stupid error" as Jamie Dimon admitted.

Last week I talked about the "Go away in May" strategy and I did receive a number of comments. I actually had my article published in [Seekingalpha.com](http://Seekingalpha.com) which was nice to see. (I list the monthly returns again at the end of my newsletter.) So if one goes away in May or the end of May, where does one go? Here are a few options of what you can do with your money.

1. Park it in cash equivalents - Although the return is minuscule, you'll be assured of maintaining your principal

2. If you want to continue to have market exposure, look for higher dividend paying stocks in less economically sensitive sectors. Although this could become a "crowded" trade, you will be able to get a quarter or so of dividends while staying in the market. These sectors include Healthcare, Consumer Staples and Utilities as the first choice. In general, high dividend stocks should have a place in your portfolio.

3. Write covered calls on your existing holdings - This is a way of generating income while you wait. If volatility increases, this will increase option premiums and allow you to get a little more income. There are risks involved with writing options so you should consult a professional before embarking.

4. You can buy shorter duration bonds or low-fee Bond ETFs. There is a risk to principal but you do get a little higher yield.

5. A mixture of the above will allow good diversification so you don't have all your eggs in one basket.

Before doing anything you should weigh transaction costs against the risk/reward. The simplest thing to do is nothing and ride it out for the long term. The next simplest thing to do is park it in cash. I like having some extra cash available in the summer that you can use to buy good stocks that may have corrected to the point where they are very attractive to purchase.

I also would like to re-print a story I read from Pragmatic Capital. It concerns the fiscal cliff we face this year. Please give it a read as it is something that will really start coming more into focus as the year progresses and it is scary.

Unless the US Congress takes action this year, the nation will be facing a "stimulus" reduction via changes in tax [rates](http://pragcap.com/8-events-leading-to-the-fiscal-cliff) and federal spending provisions, all taking

Unless the US Congress takes action this year, the nation will be facing a "stimulus" reduction via changes in tax [rates](http://pragcap.com/8-events-leading-to-the-fiscal-cliff) and federal spending provisions, all taking effect in late 2012 and early 2013. Here is the list of these provisions:

1. The Alternative Minimum Tax (AMT), currently at 28% for those filing jointly with incomes of $74K or greater, will drop down to $45K. That means that middle class families making over $45K will not be able to use deductions (medical, etc.) to pay less than 28% in taxes - a substantial tax increase on the middle class.

2. The so-called "doc fix" provision, which is currently keeping the government from implementing a 25% cut on physician payments by Medicare, will expire unless Congress acts.

3. The Payroll tax cut will expire at the end of 2012, increasing from 4.2% back to 6.2%.

4. The Super Committee's inability to reach a decision last year will force mandatory cuts (sequester) in the US government's discretionary spending. A great deal of that will hit the defense industry.

5. Unemployment benefits for workers who have exhausted the standard 26 weeks of benefits will be phased out.

6. Numerous temporary research and development tax benefits to corporations will expire.

7. The 2001 and 2003 tax cuts are set to expire. This includes tax rates on those making over $250K as well as qualified dividends and in particular the 15% rate on long term capital gains. People are wondering why we are having a string of large IPOs this year (including may private equity backed IPOs), even in a less than friendly IPO environment. Part of the reason is that the current cap gains tax rate may be the lowest that the owners will be paying in the foreseeable future.

8. At the end of the year the infamous debt limit will hit again, potentially forcing further cuts.

According to Goldman Sachs, the total of amount of dollars the US government will be taking out of the economy is about $600 billion. Clearly some of these provisions may be modified or extended. But given the sharply divided Congress and the contentious election year, the political impasse is likely to continue. A large portion of these tax increases and austerity measures may take effect. These changes will potentially be a positive for the US budget deficit, but for an economy that is still fragile and somewhat dependent on government stimulus, it will certainly generate a material drag on the [GDP](http://pragcap.com/8-events-leading-to-the-fiscal-cliff) growth.

**Historical Returns for the S&P 500**

**For the period 1988-2011**

|  |  |
| --- | --- |
|  | **1988-2011** |
|  | **CAGR** |
|  |  |
| Jan | 0.39% |
| Feb | -0.08% |
| Mar | 1.21% |
| Apr | 1.99% |
| May | 1.54% |
| Jun | -0.42% |
| Jul | 0.90% |
| Aug | -0.92% |
| Sept | -0.39% |
| Oct | 1.37% |
| Nov | 1.45% |
| Dec | 2.08% |
|  |  |
| Total | 9.45% |
|  |  |
| Jan - May | 5.13% |
| March-May | 4.80% |
| Oct - Dec | 4.99% |
|  |  |
| May - Sept | 0.69% |
| June - Aug | -0.45% |
| June - Sept | -0.83% |

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**Economy**

Economic news was somewhat light this week. The trade deficit in goods and services came in at $51.8 billion in March, larger than the consensus expected deficit of $50.0 billion. In the last year, exports are up 7.3% while imports are up 8.4%.

In the labor market, new claims for unemployment insurance dipped 1,000 last week to 367,000. Continuing claims for regular state benefits fell 61,000 to 3.23 million, the lowest since July 2008. These figures suggest faster payroll growth in May then in March/April.

The Producer Price Index (PPI) declined 0.2% in April, versus the consensus expectation of no change. Producer prices are up 1.9% versus a year ago

**Bonds**

The 10-yr UST yield fell to 1.84% from 1.88%. It is very close to the all-time low hit last September and likely to break that during this week. The 30-yr UST also came within a whisker of breaking 3% and closed at a yield of 3.017%

The ML High Yield 100 yield fell to 6.46% from 6.53%. Investors looking for yield have been buying HY bonds as spreads are attractive and default rates are low.

The 30-yr Fixed rate mortgage fell to 3.95% from 3.99%. I repeat, is there anybody left to refi??

**Stocks**

The US markets were reasonably resilient given all the news of the past week although it was a bad week that could have been a lot worse. The DJIA fell 1.67% on the week to 12820. The S&P 500 fell 1.15% to 1353. The NASDAQ, dropped .76% to 2934.

European stocks somehow managed to stave-off a big decline and the Euro Stoxx 600 fell only .41% to 252. Spain actually rose 1.74% as they helped control some of their biggest banks.

Asia/Pac stocks fell sharply with the DJ./Asia index down 4.31%. Japan fell 4.55% while Hong Kong shed 5.32%%

**Commodities & Currencies**

Gold fell again, dropping $61 to $1583/oz. Warren Buffet and his partner Charlie Munger made disparaging remarks against owning gold.

The price of crude oil stayed below $100 to 96.13 from 98.49 per barrel

The dollar rose against the Euro to 1.2917 from 1.3084.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,820 | -218 | -1.67% |
| **S&P 500** | 1353 | -15.71 | -1.15% |
| **NASDAQ Comp** | 2934 | -22.5 | -.76% |
| **S&P Mid Cap** | 964.52 | -.78 | -.08% |
| **S&P Small Cap** | 445 | -.65 | -.15% |
| **Russell 2000** | 790 | -1.78 | -.22% |
| **Euro Stoxx 600** | 252 |  | -.41% |
| **Dow Asia/Pacific** | 122.72 |  | -4.31% |

|  |  |
| --- | --- |
| **Strong Sectors** | Telecom, Utilities, HC |
| **Weak Sectors** | Technology, Financials, Basics |
| **NYSE Advance/Decline** |  |
| **NYSE New High/Low** |  |
| **AAII Bulls/Bears** | 25.4 / 42% Increase in bearishness |

Starting out as a tough day. Have a great week!

***Bob***

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***From the Desk of Bob Centrella, CFA: May 7, 2012***

***"Sell in May and go away? Well sort of. Read on... "***

Dear Friends,

First off, what a glorious day Sunday was for the Tour of NYC bike ride. I want to thank all of you that donated to my "Ride for Cancer". Most importantly I reached my goal of raising at least $2000 for LiveStrong. The weather was great and my 3 friends and I had a great ride through NYC and into Staten Island. I've attached a picture of "**Team Forza**" from the ride. One of our other riders also raised $ thousands for Alzheimer's so it was a productive ride. Finally, we had no injuries to report although we did see a few accidents.

I must also mention that during the week I took my wife, youngest daughter and her friend to see Springsteen at the Pru Center. Unbelievable show! If you get a chance when he comes back in September, you have to go see him and the band. For 62, he puts a lot of athletes to shame with his energy and youthfulness for 3 hours. Actually, when I think of the current state of the market and economy, I can't help but think it could use a good shot of that energy. Especially now as we enter this somewhat controversial period of summer doldrums.

**Sell in May and go away.** You hear it all the time, year after year as we get closer to the summer. Turn on CNBC and all you hear the talking heads talk about is "Sell in May and go away" - like it's been pre-programmed into each one of their heads. "You must repeat this every hour and then it will come true." "Don't worry about the facts, just tell the story." Or go to a financial website and you can't help but find an article talking about the same strategy. But what's lacking in the arguments are facts.

Some of you may remember Sergeant Joe Friday of Dragnet, who's favorite line in interviewing somebody was "*Just the facts, mam*". So, I decided to pull historical data from 1988 to present (6 previous election cycles) and look at 288 monthly returns for the S&P 500 to try to determine if there has indeed been a trading pattern from which we can learn and profit.

But before I give you my findings, a few caveats. This is HISTORICAL DATA (said very slowly). History is not always representative of the future. I've based my findings on the S&P 500 as a representation of the broad equity market. I'm using averages and CAGRs; the market has a huge standard deviation from those averages so the swings can be very material. In other words, these are facts and probabilities. That's all. You can extrapolate into the future but there is no guarantee that the results will be the same.

OK so here we go. First, my conclusion; you might not really want to sell in May. But June, now that's a different story. So I guess technically if you sold on the last day of May, you are selling in May...

I've cut the data a number of different ways and I am going to give you the highlights. For me, my baseline was - was the index up or down in a particular month? If it was up, it's a good month. Here are some interesting tidbits from my findings before I give you the numbers:

* From 1988 thru 2011 (288 months) the market was down 103 months and up 185 months. So, the market was up 64% of the time in general.
* The CAGR during this period was 9.45%, about equal to the long-term annual market gain for the last 100 years. Standard deviation was 18.6%. So the range is -9% to +28%, about typical. (Note: CAGR = Annualized return)
* During this period, four months produced a negative return over 24 years - February, June, August & September
* Not surprisingly, the best 3 months to invest are Oct thru December (5% CAGR). Maybe surprisingly, the other best 3 month stretch is March thru May (4.8% CAGR).
* The market was down the most times in 24 years during February (10), June(11), July(12), Aug(10), Sept(12)
* December has been the best month in terms of probability the month would be up. It was only down 3 times in 24 years. During April and May the market was down 6 times each.
* During election years, I really see no discernible pattern no matter how I slice it. So regardless of what all the strategists say, **THERE IS NO ELECTION YEAR PATTERN**... other than political angst.
* How about this obscure fact? - There was only 1 year in the last 24 where each month May thru September was down. And yes, 2011 was it. There were 2 other years where the market was down June-Sept - 1990 & 2001.

OK, enough with the tidbits. Let's go to the meat of my findings and my conclusions.

1. Yes**, there is clearly a pattern** and the numbers, sort of, favor sitting out the months of June through September. However, there is a funny quirk in the numbers. Even though September has a 50% chance of being a down month based on history, in years where August is down September has often been up.
2. If you invested January thru May, sold, then invested October through December, the CAGR for the last 24 years is 10.40% compared to a CAGR of 9.45% for investing the whole year. Factoring in commission costs and timing issues, it would be about a wash or slightly better.
3. The CAGR for June thru September has been about -.83%. So again, unless you could sell and invest the proceeds in a riskless, income producing security, the numbers say it is close to a wash after commissions.
4. **During the 7 periods from June thru September where the market was down, the average drop was 13%! So when the market does drop in the summer, it really drops. The average annual gain during that period for up periods was 5%.**
5. You definitely want to be in the market for the final quarter of the year.

**So boiling it all down, I conclude that if you want peace of mind, you should sell at the end of May and not come back til the end of September**. Interestingly, the historical probability actually favors the fact that the market will be **UP** during that period (71% of the time). However, if the market goes down, it really hits hard. And this I believe is why there is so much talk of sitting out the summer. Investors remember the bad more than the good. Especially considering that in most recent history (2010 & 2011) the market had tough summers. If you in fact are disciplined enough to do this year-in and year-out, over a long period, odds seem to favor that it will produce equal or better returns than staying fully invested through the whole year. Not to mention some peace of mind.

Now there are other ways to maintain exposure to the market and possibly cut your risk during the summer but I won't get into it this week. I'll save that for next week. Following is some of the summarized information. I'd be happy to go into more detail with anybody that wants to email or call me.

So next time you hear the talking heads asking "Do we sell in May and go away?" You can say you know "Just the Facts".

**Historical Returns for the S&P 500**

**For the period 1988-2011**

|  |  |
| --- | --- |
|  | **1988-2011** |
|  | **CAGR** |
|  |  |
| Jan | 0.39% |
| Feb | -0.08% |
| Mar | 1.21% |
| Apr | 1.99% |
| May | 1.54% |
| Jun | -0.42% |
| Jul | 0.90% |
| Aug | -0.92% |
| Sept | -0.39% |
| Oct | 1.37% |
| Nov | 1.45% |
| Dec | 2.08% |
|  |  |
| Total | 9.45% |
|  |  |
| Jan - May | 5.13% |
| March-May | 4.80% |
| Oct - Dec | 4.99% |
|  |  |
| May - Sept | 0.69% |
| June - Aug | -0.45% |
| June - Sept | -0.83% |

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**Economy**

Personal income increased 0.4% in March (0.5% including revisions to prior months), beating the consensus expected gain of 0.3%. Personal consumption rose 0.3% in March (0.5% including revisions to prior months), versus a consensus expected gain of 0.4%. In the past year, personal income is up 3.2% while spending is up 4.0%.

The Chicago PMI, a measure of manufacturing activity in that region, slipped to a 56.2 in April from 62.2 in March, mirroring the weakness seen in the Empire State index and Philly Fed index.

The ISM manufacturing index increased to 54.8 in April from 53.4 in March, coming in well above the consensus expected 53.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)

The ISM non-manufacturing composite index fell to 53.5 in April, coming in below the consensus expected decline to 55.3.

The ADP employment index, which measures private sector payrolls, increased 119,000 in April. New claims for unemployment insurance fell 27,000 last week to 365,000, while continuing claims for regular state benefits dropped 53,000 to 3.28 million.

The big news on Friday, Non-farm payrolls increased 115,000 in April and were up 168,000 including revisions to February/March. The consensus expected a gain of 160,000. The unemployment rate ticked down to 8.1% from 8.2%. On the silver lining side that was mostly ignored, the Labor Department once again made large upward revisions to prior months. Including these revisions, nonfarm payrolls were up 168,000 and private payrolls were up 196,000, both *beating* consensus expectations

**Bonds**

The 10-yr UST yield fell to 1.88% from 1.93% last week continuing the rally in bond prices from just a few weeks ago when the yield hit 2.4%. It is now near the low end of its trading band of 1.75% to 2.4%.

The ML High Yield 100 yield fell to 6.46% from 6.53%. Investors looking for yield have been buying HY bonds as spreads are attractive and default rates are low.

The 30-yr Fixed rate mortgage fell to 3.95% from 3.99%. I repeat, is there anybody left to refi??

**Stocks**

The US markets fell mostly to Friday's weak unemployment report. The DJIA fell 1.44% on the week to 13,038. The S&P 500 fell 2.44% to 1369. The NASDAQ, dropped hard, down 3.68% to 2956.

European stocks also dropped with the Euro Stoxx 600 down 2.36% to 253. Selling was rampant with weak performance from Italy (-5.82%), Spain (-3.78%) and Germany (-3.53%). France fell 3.19% on the eve of its election weekend.

Asia/Pac stocks fell slightly with the DJ index down .19%. Japan fell 1.48% while China rose 2.32% and the Taiwan index climbed 2.95%

**Commodities & Currencies**

Gold fell 19.30 to 1644/oz.

The price of crude oil dropped below $100 to 98.49, down $6.44.

The dollar rose against the Euro at 1.3084 from 1.3253.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,038 | -190 | -1.44% |
| **S&P 500** | 1369 | -34.26 | -2.44% |
| **NASDAQ Comp** | 2956 | -112.86 | -3.68% |
| **S&P Mid Cap** | 965 | -34.1 | -3.41% |
| **S&P Small Cap** | 445 | -16.65 | -3.60% |
| **Russell 2000** | 792 | -33.63 | -4.07% |
| **Euro Stoxx 600** | 253 |  | -2.36% |
| **Dow Asia/Pacific** | 128.25 |  | -.19% |

|  |  |
| --- | --- |
| **Strong Sectors** | Telecom, Utilities, Consumer |
| **Weak Sectors** | Technology, Energy, Basics |
| **NYSE Advance/Decline** | 1023 / 2149 |
| **NYSE New High/Low** | 363 / 82 |
| **AAII Bulls/Bears** | 35.4 / 28.5 % Increase in bullishness |

Have a great week!

Bob

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**APRIL 2012 NEWSLETTER ARCHIVE**

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***From the Desk of Bob Centrella, CFA: April 23, 2012***

***"Love the Apple "***

Dear Friends,

This week I will be briefer than normal. The weather here in NJ continues to be amazing. However, my hay-fever is going crazy. I get up in the morning and my car is green from pollen. Gives new meaning to "Going Green" I guess.

Across the pond, the UK announced that GDP contracted in the first quarter officially putting the country in recession. On Thursday S&P downgraded Spain's long-term credit rating. In France, the French President runoff in a week looks certain to produce a Socialist President and the end for Sarkozy. That brings into question what will happen to the Merkel/Sarkozy alliance that has helped band-aid the EU markets and especially the Euro recently. So, things not looking too spiffy overseas.

Last week Apple lived up to the hype with an extremely strong earnings report. The stock shot back up and it helped take the overall market up with it despite weak economic data and news from overseas. Earnings in general continue to be a bit stronger than expected and most of the big companies have already reported. There were a few negative surprises though as UPS and Caterpillar earnings disappointed investors. As the week unfolds, market players are anticipating the April employment report coming on Friday. That report has the potential to move the market and set the tone for the rest of the month. A bad report probably leads the market pundits to call for the "Go away in May" trade and it could lead to the summer market doldrums. Since earnings are mostly behind us, the market driving factors will be economic numbers, politics and news out of Europe. Add to that the fact that the Fed's Operation Twist will be coming to an end in June. Might be a good time to add some Gold to your portfolio for the summer if you don't own any already...

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**Economy**

New single-family home sales declined 7.1% in March, but, at a 328,000 annual rate, still beat the consensus expected pace of 325,000. The months' supply of new homes (how long it would take to sell the homes in inventory) rose to 5.3

New orders for durable goods fell 4.2% in March, coming in well below the consensus expected decline of 1.7%. Orders excluding transportation fell 1.1%, also coming in well below the consensus expected gain of 0.5%. Overall new orders are up 2.7% from a year ago, while orders excluding transportation are up 5.0%.

The first estimate for Q1 real GDP growth is 2.2% at an annual rate, slightly less than the consensus expected 2.5% rate and below Q4's rate of 3.0%. The GDP price index increased at a 1.5% annual rate in Q1

On the employment front, new claims for unemployment insurance declined 1,000 last week to 388,000. Continuing claims for regular state benefits rose 3,000 to 3.32 million. The new claims figure has hit a wall after gains earlier this year

**Bonds**

The 10-yr UST yield fell to 1.93% from 1.97% last week continuing the rally in bond prices from just a few weeks ago when the yield hit 2.4%.

The yield on Spain's 10-yr bond continued to climb to just under 5.87% last week. A level above 7% is considered unsustainable for the economy.

The 30-yr Fixed rate mortgage fell to 3.99% from 4.03%. Is there anybody left to refi??

**Stocks**

The DJIA rose 1.53% on the week due mostly to better than expected earnings. The DJIA rose 199 points to 13228 while the S&P 500 climbed 1.8% to 1403.36. The NASDAQ, buoyed this week by Apple, climbed 2.29% to 3069.

European stocks fared well also with the Euro Stoxx 600 up .52% to 259.12. Top performing country indexes included Italy (+2.62%) and France up 2.4%.

Asia/Pac stocks fell with the DJ index down .05%.

**Commodities & Currencies**

Gold rose 21.90 to 1664/oz.

The price of crude oil inched up 1.05 to $104.93

The dollar fell against the Euro at 1.3253 from 1.3218.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,228 | 199 | 1.53% |
| **S&P 500** | 1403 | 24.83 | 1.80% |
| **NASDAQ Comp** | 3069 | 68.75 | 2.29% |
| **S&P Mid Cap** | 999 | 23.05 | 2.36% |
| **S&P Small Cap** | 462 | 11.64 | 2.58% |
| **Russell 2000** | 825 | 21.42 | 2.66% |
| **Euro Stoxx 600** | 259 |  | .52% |
| **Dow Asia/Pacific** | 128.49 |  | -.05% |

|  |  |
| --- | --- |
| **Strong Sectors** | Telecom, tech, Oil & Gas |
| **Weak Sectors** | Consumer, HC, Basics |
| **NYSE Advance/Decline** | 2251 / 923 |
| **NYSE New High/Low** | 308 / 102 |
| **AAII Bulls/Bears** | 27.6 / 37.4 % Increase in bearishness |

Have a great week!

Bob

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***From the Desk of Bob Centrella, CFA: April 23, 2012***

***" Earnings looking good so far, but what about the rest of the world?"***

Dear Friends,

The markets were able to rally a bit last week mostly due to solid earnings reports from blue-chip companies. So far this earnings season with about 1/4 of S&P 500 companies reporting, about 80% have come in above expectations by an average of almost 8%. Considering that most analysts were pessimistic coming into this earnings quarter, companies have performed very well. This week is a big one for earnings with the vast majority of S&P companies reporting. So on the earnings front, we will get a good picture of what happened and what companies see going forward.

Elsewhere in the world, things are not so rosy. Once again, Europe is flaring up with Spain's economy and debt clearly in the headlights. As a reminder, Spain is Europe's 4th biggest economy so this is not little old Greece that we have to worry about. It's already a given that Spain, Italy. Portugal and Greece will endure deep recessions in 2012. How deep, how much it spreads, and how long are questions that could have grave repercussions around the world. Over the weekend we also saw the French people are set to possibly elect a new President as Sarkozy lost the first election and will face his challenger on May 6th in a runoff. We also got news that China manufacturing contracted in April and the European Purchasing Managers Index fell to 46 from 47.7 last month. Readings below 50 signal contraction.

So a few weeks ago I mentioned the new "wall of worry" and it looks like it is here to stay for a while and markets will have a hard time moving ahead in a straight line this summer if we don't get some clarity on all the issues. On Tuesday, the FOMC meets and although nothing new is expected, anything Bernanke says in regards to a new round of easing would certainly help the markets. Also on Tuesday, Apple reports earnings in one of the most anticipated earnings events ever. Let's hope that there are no negative surprises there as that could trigger a selloff of some magnitude if things aren't hunky-dory in Apple-land.

There are tons of EPS reports this week so I won't list them here. However, if you want to see who is reporting or even listen to a conference call, try going to the following website: WWW.EARNINGS.COM. There you can get a list of companies reporting each day of the week.

**Economy**

* Retail sales increased 0.8% in March, easily beating the consensus expected gain of 0.3%. Retail sales are up 6.5% versus a year ago.
* Industrial production was unchanged in March, but up 0.4% including upward revisions to prior months. The consensus expected a gain of 0.3%. Production is up 3.8% in the past year. Auto production is up 13.7% versus a year ago while non-auto manufacturing is up 4.2%.
* Overall capacity utilization ticked down to 78.6% in March from 78.7% in February
* Housing starts declined 5.8% in March to 654,000 units at an annual rate, well below the 705,000 rate the consensus expected. Starts are up 10.3% versus a year ago. The decline in starts in March was all due to a 16.9% drop in multi-family units. Single-family starts declined only 0.2%. Single-family starts are up 10.5% from a year ago, while multi-family starts are up 9.7%.
* New building permits increased 4.5% in March to a 747,000 annual rate, easily beating the consensus expected pace of 710,000. Compared to a year ago, permits for single-unit homes are up 17.9% while permits for multi-family units are up 57.8%.
* Existing home sales fell 2.6% in March to an annual rate of 4.48 million units, slightly below consensus expected 4.61million units. Sales are still up 5.2% versus a year ago.
* New claims for unemployment insurance slipped 2,000 last week to 386,000. Continuing claims for regular state benefits increased 26,000 to 3.30 millionon

**Bonds**

US Treasuries rallied again as volatility returned to the stock market. The 10-yr UST yield fell to 1.97% from 1.996% last week continuing the rally in bond prices from just a few weeks ago when the yield hit 2.4%.

The yield on Spain's 10-yr bond continue to climb to just under 6% last week. A level above 7% is considered unsustainable for the economy.

The ML high yield 100 saw its yield fall on a price rally. The yield fell to 6.61% from 6.79% last Friday.

The 30-yr Fixed rate mortgage fell to 4.03% from 4.08%.

**Stocks**

The DJIA ended a 2-week decline by rising 1.4% on the week due mostly to better than expected earnings. The DJIA rose 179.67 points to 13029 while the S&P 500 climbed .6% to 1378.5 but the NASDAQ, weighed down by a fall in Apple shares, fell .36% to 3000.

European stocks fared well also with the Euro Stoxx 600 up 1.73% to 257.8. Top performing country indexes included the German DAX (+2.52%), the Swiss Market (+2.73%), UK (2.13%) and Sweden (+2.11%).

Asia/Pac stocks fell with the DJ index down .63%. China rose 2.02% but Taiwan dropped 3.61%..

**Commodities & Currencies**

Gold fell $17 to 1642/oz.

The price of crude oil inched up .21% to $103.05 per barrel.

The dollar fell against the Euro at 1.3218 from 1.3078. (I'm still amazed at how strong the Euro is given all the weakness and macro events going on overseas.)

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,029.26 | 179.67 | 1.40% |
| **S&P 500** | 1378.53 | 8.27 | .60% |
| **NASDAQ Comp** | 3000.45 | -10.88 | -.36% |
| **S&P Mid Cap** | 976.35 | 11.94 | 1.24% |
| **S&P Small Cap** | 450.38 | 4.28 | .96% |
| **Russell 2000** | 804.05 | 7.76 | .97% |
| **Euro Stoxx 600** | 257.79 |  | 1.73% |
| **Dow Asia/Pacific** | 128.55 |  | -.63% |

|  |  |
| --- | --- |
| **Strong Sectors** | Health Care, Utilities, Telecom |
| **Weak Sectors** | Oil & Gas, Consumer Services,Financials |
| **NYSE Advance/Decline** | 2036 / 1136 |
| **NYSE New High/Low** | 208 / 93 |
| **AAII Bulls/Bears** | 31.18 / 33.84% drop in bearishness |

Market down over 1%, try to have a great week!

Bob

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***From the Desk of Bob Centrella, CFA: April 16, 2012***

***Time for some Spring Cleaning - including your portfolio. Contact us for a Free Portfolio Review***

***" Earnings - Front and Center"***

Dear Friends,

The weather this past weekend was amazing here in the Northeast. We had opening day for Golf season although I must admit I've gotten out to the golf course much more in March and April this year than any I can think of in the past. I have a feeling it is going to be a hot and humid summer this year so make you plans for the beach.

I did also celebrate my 2nd anniversary of my 49th birthday by shooting an 81 on Friday afternoon while the stock market was dropping 136 points. Made the sting of a down day go away:)

Last week was a downer for the equity markets but positive for bonds as investors shifted their bets to less risky assets. The S&P 500 was down for the 2nd week in a row as the second quarter has gotten off to a shaky start. Volatility is returning to the marketplace as the Dow had 100+ point swings every day including a 214 point loss on Tuesday. The week started off on a bad note with the disappointing jobs report on Good Friday while the market was closed pre-Easter. That was coupled with weak consumer sentiment and most importantly deepening concerns again about Spain and Italy in the Euro-region.

Although earnings kicked off last week with a positive report from Alcoa which actually lifted the market, companies begin reporting en masse this week and there is much anticipation. US corporate profits are expected to rise only 3.5% this quarter (only 2% excluding April), down sharply from 9.2% last quarter. What gives? Well, as I've alluded to in the past, we need revenue growth. Revenues are projected to grow only 4% this quarter. Given that companies have been slashing jobs and cutting costs since 2009 to drive earnings growth, they need revenue growth to make further EPS gains. Now with companies starting to hire and grow inventories, with the additional cost burden they are taking on, they need revenue growth or else profit margins will erode. So we should pay keen attention to what companies say going forward and how they see the year unfolding. Personally I think it may be a below average quarter as companies "reload" and position themselves for the rest of the year.

In terms of important EPS reports this week to keep an eye on, here are a few companies to follow that have the potential to move the market:

Tuesday 4/17 - Goldman Sachs, IBM, Intel, JNJ, Coke

Wednesday - American Express, Haliburtan, Qualcomm, Ebay

Thursday - Bank of America, Baxter, EMC, Microsoft, Morgan Stanley, Union Pacific Corp

Friday - General Electric, Honeywell, McDonalds, Schlumberger.

These are some of the largest companies that represent a good sampling of most sectors in the US economy as well as international markets. So pay attention and I'll report back next week on how they did.

I know I owe you an Italian Wine tip so how about something mid-week coupled with a looks at some earnings reports?

**Economy**

Non-farm payrolls increased 120,000 in March and were up 127,000 including revisions to January/February. The consensus expected a gain of 205,000. Unemployment ticked down to 8.2% down from 8.9% a year ago.

New claims for unemployment insurance increased 13,000 last week to 380,000 surprising on the upside.

The Producer Price Index (PPI) was unchanged in March, coming in below the consensus expected gain of 0.3%. Producer prices are up 2.8% versus a year ago. Core PPI also rose .3% and now stand up 2.9% from a year ago.

The Consumer Price Index (CPI) increased 0.3% in March exactly as the consensus expected. The CPI is up 2.7% versus a year ago. Core CPI was up .2% and is up 2.3% from a year ago

**Bonds**

US Treasuries rallied as volatility returned to the stock market. The 10-yr UST yield fell to 2.0% from 2.056% last week. Only a few weeks ago the yield was at 2.4% and investors were fretting that the bull-run in bonds was over.

Spain & Italy saw their yields rise last week as doubts resurfaced about their ability to push through reforms. Spain's 10-yr was at 5.93% while Italy's rose to 5.52%.

The ML high yield 100 saw its yield rise (price fell) to 6.79% from 6.67%.

The 30-yr Fixed rate mortgage fell to 4.08% from 4.18%.

**Stocks**

The DJIA fell 211 points, down 1.6% to 12,849.6 while the S&P 500 dropped 2% to 1370.26. the NASDAQ dropped 69 points, or 2.3% to 3011.33.

European stocks fared the worst with the Stoxx 600 falling for the 4th week in a row, down 2.19% to 253.4. Italy (-5.63%) and Spain (-5.35%) led the decline followed by France CAC (-3.94%) and German DAX (-2.82%).

Asia/Pac stocks were up slightly with the DJ index up .19%. China rose 2.28%. Asia stocks have so far been the top performers in 2012.

**Commodities & Currencies**

Gold rose 1.88% to 1659.10/oz.

The price of crude oil fell .46% to 102.83.

The dollar was basically flat against the Euro at 1.3078.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 12,849.59 | -210.55 | -1.61% |
| **S&P 500** | 1370.26 | -27.82 | -1.99% |
| **NASDAQ Comp** | 3011.33 | -69.17 | -2.25% |
| **S&P Mid Cap** | 964.41 | -27.82 | -2.02% |
| **S&P Small Cap** | 446.10 | -11.64 | -2.54% |
| **Russell 2000** | 796.29 | -21.89 | -2.68% |
| **Euro Stoxx 600** | 253.40 |  | -2.19% |
| **Dow Asia/Pacific** | 129.37 |  | +.19% |

|  |  |
| --- | --- |
| **Strong Sectors** | Consumer Services, Basic Material, Telecom |
| **Weak Sectors** | Oil & Gas,Healthcare,Financials |
| **NYSE Advance/Decline** | 915 / 2260 |
| **NYSE New High/Low** | 111 109 |
| **AAII Bulls/Bears** | 28.14 / 41.56% Huge change here.  |

note: AAII survey shows growing bearishness. This is usually good for the markets, eventually.

Market is up, have a great week!

Bob

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***From the Desk of Bob Centrella, CFA: April 9, 2012***

***" The new Wall of Worry is forming"***

Dear Friends,

I hope you all had a great Easter holiday and spent quality time with family and friends. We were glued to the TV watching Bubba Watson pull out a great Masters golf tournament victory. Being a fellow lefthander, I was very happy to see him bring home the Green jacket. Almost made me forget that come today we would be in for a tough day at the stock marketplace.

Stock prices dropped in the holiday shortened week with the S&P 500 declining .74% to 1398 and the DJIA falling 1.15% to 13060. We are looking for another 1% drop this morning due to the weak jobs report announced on Friday while the market was closed. On Friday, the highly anticipated nonfarm payrolls only increased 120K compared to the consensus expectation of 200K jobs. Although the unemployment rate dropped to 8.2% that was entirely due to the fact that the labor force shrunk by 164K. One potential silver lining in the weak jobs number - QE3 may come back onto play if the economic data continues to be lackluster. As a matter of fact, bonds rallied on the weak data.

For months now I've been writing about how the cheap money being provided by central banks, including the US Fed, has steered investors to "risk assets" while also allowing economies to strengthen. This is a tightrope that the bankers must walk. They can't pull back too swiftly or they will run the risk of derailing the work that they have orchestrated this past year. Now all of a sudden investors and analysts are concerned that the end of the US stimulus is on the horizon and for the past week at least, risk assets sold off. This coupled with news out of Europe that its weaker economies are struggling and that the ECB is hesitant to undertake more monetary easing caused a worldwide drop in markets. So now there seems to be a new "wall of worry" developing among investors. This wall of worry includes at least the following:

* The Fed's "Operation Twist" expires in June and central bank members have not shown much support for QE3. (Op Twist is the Fed operation of buying longer-dated mortgage or Treasury bonds while selling shorter-dated Treasuries or mortgages.)
* Oil prices are rising again and threaten to slow consumer spending.
* A military strike against Iran by the US or Israel remains a definite possibility and is a real wild card.
* Spain's severe recession and rising bond yields stands to be a much bigger problem than Greece if it should escalate. It also offers a reminder that Europe's debt problems loom in the background and could crop up at any time.
* The pace of economic expansion in China, a source of growth for companies and economies worldwide, is slowing and some fear a hard landing.
* Economic data out of the US is still mixed as evidenced by the weak jobs report.
* Corporate earnings season is upon us and question marks remain about the quality of earnings growth and future outlooks.
* Finally, the US election looms in November and with it comes plenty of uncertainty about taxes, health care, deficits, etc..

So where is all of this leading my thinking? Well, as May approaches and the summer market doldrums comes into focus, I can't help but think that equities are poised to pause a bit for all the news to play out (*ie*, stay away in May). What's an investor to do here? First, we need to see some corporate earnings reports. That starts this week and next week in earnest. As earnings season plays out, to me the prudent thing to do is raise a little cash. A few ideas include (1) moving some money into intermediate to short-duration bonds; (2) taking some profits in big winners; (3) pulling back on cyclical stocks and adding to defensive sectors like Health Care, Consumer Staples and perhaps even Utilities to grab some yield. For those of you that know about options, another idea to generate some income is to sell covered calls. That's a whole other topic for those not skilled at the game, but I thought I'd mention it. The market has given us a 12% gain in one quarter. Although there are reasons to think we can go higher, perhaps cashing in on some of those gains and starting to become a little more defensive is not such a bad idea as the wall of worry gets higher. In the past 5 months, investors have used any small sell-offs as an opportunity to add to positions. Let's see how the market reacts this week.

**Economy**

* Nonfarm payrolls for March came in at 120K, well below consensus of 205K. This is the smallest increase in payrolls in 5 months.
* New claims for jobless benefits declined 2,000 last week to 357,000.

**Bonds**

* Bond prices rallied on the weak jobs data. The 10-year UST saw its yield fall to 2.06% from 2.22%.
* The ML high yield 100 saw its yield rise (price fell) to 6.67% from 6.45%.
* The 30-yr Fixed rate mortgage rose to 4.18% from 4.13%.

**Stocks**

* US Stocks fell across the board. The S&P closed below 1400, down .74% while the Dow fell 1.15%. Stocks are lower this morning.
* International stocks fell sharply across the board. The Euro 600 Stoxx fell 1.6% with Germany off 2.5% and France down 3.04%. Italy was down 4.78% and Spain -4.34% as yields on their bonds rose.
* DJ Asia/Pac index fell 1.49% but China rose 1.93% .

**Commodities & Currencies**

* Gold fell hard, down 2.4% to 1628.5/oz.
* The price of crude oil was up to 103.31, +.28%.
* The dollar rose against the Euro to 1.3096 from 1.33.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,060 | -151.9 | -1.15% |
| **S&P 500** | 1398 | -10.39 | -.74% |
| **NASDAQ Comp** | 3080 | 11.07 | -.36% |
| **S&P Mid Cap** | 984 | -10.02 | -1.01 |
| **S&P Small Cap** | 457 | -5.71 | -1.23% |
| **Russell 2000** | 818 | -12.12 | -1.46% |
| **Euro Stoxx 600** | 259.07 |  | --1.6% |
| **Dow Asia/Pacific** | 129.13 |  | -1.47% |

|  |  |
| --- | --- |
| **Strong Sectors** | Consumer Staples, HC, Technology |
| **Weak Sectors** | Oil & Gas,Basic Materials,Financials |
| **NYSE Advance/Decline** | 1139 / 1999 |
| **NYSE New High/Low** | 246 / 68 |
| **AAII Bulls/Bears** | 38.2 / 27.8% Big change here.  |

Have a great week!

Bob

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***From the Desk of Bob Centrella, CFA: April 2, 2012***

***Time for some Spring Cleaning - including your portfolio. Contact us for a Free Portfolio Review.***

***" Q1 in the Books -- What a Quarter"***

Dear Friends,

First, I wish Kentucky and Kansas fans and players good luck in tonight's March Madness Finale. I like the team that begins with the letter "K" tonight. Put that in the bank!

The first quarter is in the books and what a quarter it was for worldwide equity markets. The US market soared to its most successful quarter since 1998. Stock markets around the world rallied to levels above many strategists' full year targets. A quick snapshot of equity market gains includes:

S&P 500 +12%,

Global Dow +10.9%,

Brazil +13.7%,

Europe Stoxx 600 +7.7%,

Germany +17.8%,

France +8.45,

Italy +5.9%,

DJ Asia/Pac +11.3%.

The strongest market was Japan's Nikkei, up 19.3% while the weakest market was Spain -6.5%. Other weak markets included China +2.9% and Canada +3.7%. The rally was driven largely by the gobs of money being supplied by central banks including the Fed, ECB, Bank of England and others. The cheap money has helped calm the storms in Greece and other Euro countries. Meanwhile here in the US, the economic data has been mostly positive and trending in the right direction lead by gains in employment, manufacturing activity and better housing data.

Where we go from here may largely depend on a continuation of positive macro trends as well as the earnings outlook as companies get ready to report first quarter profits. In 2011, S&P 500 earnings grew 15%; the 2012 estimate for S&P 500 EPS growth, while having slipped from a 10.6% early in the year to 9.1% currently (8% ex-AAPL, is still well above that of nominal U.S. GDP (which has averaged 4% during the sub-par recovery) with the y/y growth rate for 1Q12 only expected to increase by 2.1% (-0.1% ex-AAPL). On the positive front, we have barely seen any negative earnings pre-announcements. Typically, companies announce the last 2 weeks of a quarter when they realize that they will miss estimates. A large number of pre-announcements are usually a sign of a potential weak earnings season. With the absence of pre-announcements, perhaps Q1 profits will be mostly on target. Then all eyes will be turned to what type of outlook for Q2 and beyond that companies provide.

A few weeks ago I presented some data that showed that although the market and corporate profits were up about 100% since the 2009 lows, revenue growth was only up 1% in the past 3 years. For earnings to continue to move higher, we need revenue growth. So, listen up and let's see where revenue growth comes in for the quarter. Cost-cutting can only take us so far. Companies are operating so lean that any revenue growth should produce good operating leverage and higher profits. That in turn could move the market to the next level and allow the rally to continue near term.

As the year progresses, the November election will begin to dominate and the usual uncertainty during this period is often not good for the equity markets until a clearer picture develops of who may win and what party controls the House and Senate. So if this market is going to rest, it would seem that the typical scenario of "go away in May" could play out. However, the market has defied the naysayers so far and if easy monetary policy continues and rates stay near current levels, stocks will continue to remain the best game in town until the election uncertainty sets in.

**Economy**

* New orders for durable goods increased 2.2% in February, coming in below the consensus expected gain of 3.0%. Orders excluding transportation rose 1.6%, almost exactly matching the consensus expected gain of 1.7%. Overall new orders are up 12.2% from a year ago, while orders excluding transportation are up 8.5%.
* Real GDP growth in Q4 was unrevised at a 3.0% annual rate, exactly as the consensus expected. Nominal GDP growth - real GDP plus inflation - was revised down slightly to a 3.8% annual rate versus a prior estimate of 3.9%. Nominal GDP is up 3.8% versus a year ago.
* Corporate profits increased at a 3.5% annual rate in Q4 and are up 7% from a year ago. The gain was all due to domestic activity; profits from abroad fell in Q4..
* The American consumer is buying. Personal income increased 0.2% in February (0.1% including revisions to prior months), falling short of the consensus expected gain of 0.4%. Personal consumption rose 0.8% in February (1.0% including revisions to prior months), beating the consensus expected gain of 0.6%. In the past year, personal income is up 3.2% while spending is up 4.1%.
* New claims for jobless benefits declined 5,000 last week to 359,000. Continuing claims for regular state benefits fell 41,000 to 3.34 million

**Bonds**

* Bond prices were flat. The 10-year UST saw its yield fall to 2.22% from 2.24%.
* The ML high yield 100 saw its yield drop (price rose) to 6.45% from 6.53%.
* The 30-yr Fixed rate mortgage fell to 4.13% from 4.2%.

**Stocks**

* US Stocks rose for the week with the DJIA climbing 1% to 13,212 and the S&P 500 rising .81% to close at 1408.47. The NASDAQ continued to move ahead as it climbed .77% to 3091.57
* International stocks mostly fell across the board. The Euro 600 Stoxx fell .88% with Germany off .7% and France down 1.51%. Italy was down 3.06% and Spain -3.31% as yields on their bonds rose.
* DJ Asia/Pac index rose .12% but China dropped 3.69% as investors fear a hard-landing for their economy.

**Commodities & Currencies**

* Gold rebounded slightly by climbing .42% to 1669/ oz.
* The price of crude oil was off to 103.02, down $3.85.
* The dollar fell very slightly against the Euro to 1.334 from 1.327.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,212.04 | 131.21 | 1.0% |
| **S&P 500** | 1408.47 | 11.36 | .81% |
| **NASDAQ Comp** | 3091.57 | 23.65 | .77% |
| **S&P Mid Cap** | 994.30 | 3.37 | .34 |
| **S&P Small Cap** | 463.45 | 1.54 | .33% |
| **Russell 2000** | 830.30 | .27 | .03% |
| **Euro Stoxx 600** | 263.32 | -2.33 | -.88% |
| **Dow Asia/Pacific** | 131.08 |  | .18% |

|  |  |
| --- | --- |
| **Strong Sectors** | Financials,Technology, Cons Discretion |
| **Weak Sectors** | Oil & Gas,Basic Materials,Telecom |
| **NYSE Advance/Decline** | NA |
| **NYSE New High/Low** | NA |
| **AAII Bulls/Bears** | 42.5% / 25.5%  |

Have a great week!

Bob

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### From the Desk of Bob Centrella, CFA: March 26, 2012

It's time for some Spring Cleaning - including your portfolio. Contact us for a Free Portfolio Review.

" Some Investment Lessons "

Dear Friends,

For sports fans it was an interesting weekend. Tiger Woods finally won a golf tournament after 900+ days, angering women all over the world. The Final 4 in the NCAA tournament took shape with Kentucky, Kansas, Ohio State and Louisville making the trip to new Orleans. Baseball continues to get closer to opening day and Hockey's long season still has a ways to go.

Also over the weekend I noticed an article that talked about strategist Jeremy Grantham and his caution for the market as we go ahead. The article went on to list his 10 market lessons. I thought I'd list those out for you as well as 10 rules for investing in tough markets originally listed in 2008 by former Wall Street Strategist, Bob Farrell.

**10 Market Lessons** - Jeremy Grantham

1. Believe in History. The market is gloriously inefficient and wanders far from fair price, but eventually, after breaking your heart and your patience ... it will go back to fair value. Your task is to survive until that happens.
2. Neither a lender nor borrower be. Debt encourages financial aggressiveness, recklessness and greed.
3. Don't put all of your treasure in one boat. Diversify your holdings. The more investments you have and the more different they are, the more likely you are to survive those critical periods when your big bets move against you.
4. Be patient and focus on the long term.
5. Recognize your advantages over the professionals. Again, patience is one key advantage that professionals often don't have the luxury of doing.
6. Try to contain natural optimism. Optimism can win friends and influence people, but it's a lousy investment strategy. You have to be willing to hear bearish, bad news about the risks you've taken with your money - and to make informed decisions about it.
7. On rare occasions, try hard to be brave. If you spot a bargain, act on it, even if you are early.
8. Resist the crowd; cherish numbers only. Market bubbles and the madness of crowds are exciting - until they're not. Do your own simple measurements of value or find a reliable source.
9. In the end it's quite simple, really. Stocks are bought and sold based on expectations for the future value of a company's dividends and earnings.
10. 'This above all: To thine own self be true'. You must know your pain and patience thresholds accurately and not play over your head. If you cannot resist temptation, you absolutely must not manage your own money.

**10 Investing Rules for Tough Markets** - Bob Farrell

1. Markets tend to return to the mean over time
2. Excesses in one direction will lead to an opposite excess in the other direction
3. There are no new eras - excesses are never permanent
4. Exponential rapidly rising or falling markets usually go further than you think, but they do not correct by going sideways
5. The public buys the most at the top and the least at the bottom
6. Fear and greed are stronger than long-term resolve
7. Markets are strongest when they are broad and weakest when they narrow to a handful of blue-chip names
8. Bear markets have three stages - sharp down, reflexive rebound and a drawn-out fundamental downtrend
9. When all the experts and forecasts agree - something else is going to happen
10. Bull markets are more fun than bear markets

So there you have it. Many of these lessons are common sense and I've found over my years of investing in the market that common sense and gut feeling will often win out over the long-term. Trust your gut, do your own homework, don't follow the crowd and above all else don't be too greedy. Contrary to Michael Douglas's speech in Wall Street, greed is no always good.

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**Economy**

* Housing starts declined 1.1% in February to 698,000 units at an annual rate, almost exactly the 700,000 rate the consensus expected. Starts are up 34.7% versus a year ago. The decline in starts in February was all due to a 9.9% drop in single-family units. Multi-family starts soared 21.1%. Single-family starts are up 17.8% from a year ago, while multi-family starts are up 85.4%.
* New building permits increased 5.1% in February to a 717,000 annual rate, easily beating the consensus expected pace of 686,000. Compared to a year ago, permits for single-unit homes are up 23.6% while permits for multi-family units are up 61.2%.
* Existing home sales fell 0.9% in February to an annual rate of 4.59 million units, slightly below the consensus expected pace of 4.61million units. Existing home sales are up 8.8% versus a year ago. The months' supply of existing homes (how long it would take to sell the entire inventory at the current sales rate) rose to 6.4 in February from 6.0 last month.
* New single-family home sales declined 1.6% in February to a 313,000 annual rate, coming in below the consensus expected pace of 325,000. The months' supply of new homes (how long it would take to sell the homes in inventory) rose to 5.8. With banks now able to move forward with the foreclosure process, a large inventory of bargain-priced existing homes should temporarily attract more buyers away from the new home market.
* In other news on the broader economy, new claims for unemployment insurance declined 5,000 last week to 348,000, the lowest level since March 2008. Continuing claims for regular state benefits dropped 9,000 to 3.35 million, the lowest since August 2008.

**Bonds**

* Bond prices were somewhat mixed on the week following the selloff the prior week. The 10-year UST saw its yield fall to 2.24% from 2.30% while the 30-year dropped to 3.314% or 9 basis points.
* The ML high yield 100 saw its yield climb (price fell) to 6.53% from 6.43%.
* The 30-yr Fixed rate mortgage was flat at 4.2%.

**Stocks**

* Stocks fell on the week with the DJIA slumping 1.2% to 13,080 and the S&P 500 dropping .5% to 1397. The NASDAQ continued to move ahead as it climbed .4% to 3067.9.
* International stocks fell across the board. The Euro 600 Stoxx fell 2.48% with Germany off 2.27% , France down 3.3% and Italy down 3.49%
* DJ Asia/Pac index fell 1.2% led down by China -2.3% and Hong Kong -3.04%

**Commodities & Currencies**

* Gold rebounded slightly by climbing .41% to 1662/ oz.
* The price of crude oil was off to 106.87 from 107.06.
* The dollar fell very slightly against the Euro to 1.327 from 1.3175.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13080.73 | -151.89 | -1.15% |
| **S&P 500** | 1397.11 | -7.06 | -.50% |
| **NASDAQ Comp** | 3067.92 | 12.66 | .41% |
| **S&P Mid Cap** | 990.93 | -7.06 | -.50 |
| **S&P Small Cap** | 461.91 | .14 | .03% |
| **Russell 2000** | 830.03 | -.15 | -.02% |
| **Euro Stoxx 600** | 265.65 | -6.75 | -2.48% |
| **Dow Asia/Pacific** | 130.84 | -1.59 | -1.20% |

|  |  |
| --- | --- |
| **Strong Sectors** | Consumer Goods & Services,Technology |
| **Weak Sectors** | Oil & Gas, Industrials, Basic Materials |
| **NYSE Advance/Decline** | 1,393 / 1,795 |
| **NYSE New High/Low** | 235 / 40 |
| **AAII Bulls/Bears** | 42.4% / 29.8%  |

Ben Bernanke is helping the markets this morning. Have a great week!

Bob

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### From the Desk of Bob Centrella, CFA: March 19, 2012

It's time for some Spring Cleaning - including your portfolio. Contact us for a Free Portfolio Review.

" Now What? " (Wine tip included today at the end!)

Dear Friends,

I hope you all have been enjoying this amazing weather. I actually played golf twice over the weekend, rode my bike and got the motorcycle off mothballs and ready for the Spring. Oh, also had to start cleaning the lawn and patio. I'm assuming Spring is here to stay! I'll take it.

It was quite the week for US equity markets as the market stormed ahead after the Fed meeting on Tuesday and positive bank stress test results were leaked out into the market. The S&P 500 broke thru 1400 for the first time in 4 years and the index has risen 9 of the last 10 weeks prompting some to call it the "Energizer Bunny" rally - it keeps going and going. Apple crossed $600 per share after falling back, but still the NASDAQ Composite closed above 3000 and at its highest level since November 2000. The S&P MidCap closed up above 1000 and the Dow Jones Industrial Average closed firmly above 13,000 at 13,232 by week's end. Meanwhile, the Treasury market saw a selloff in bonds prompting several Wall Street strategists to raise their yield assumptions for the 10-yr US treasury and some pundits reacted by calling it the end of the bull market in bonds. So, I guess the question is "Now What?"

The current rally has been led by Financial shares (well, to be fair, Apple has had a big part in it too.). This is what was missing in the past few years. On Tuesday, Bank stress test results were released showing that large banks are in a much better capital position to withstand potential shocks to the economy. Bank shares rallied strongly and using the SPDR Financial ETF as a guide, now stand 19% higher YTD. Participation of Financial stocks has been critical to this market rise and has been one of the key occurrences that I've been looking for and watching since the markets bottomed out late last year.

So in regards to the "now what?" question, let me offer a few points. I had been expecting a shallow consolidation of possibly 3-5% since the S&P reached about 1370 and the Dow hit 13,000. After a 1-day pullback of about 1.5% two weeks ago, the market has been on a tear. We are now entering a period of market strength; quarter-end window dressing and April earnings announcements. Since 1900, April has been the 3rd strongest month for the DJIA, rising 1.2% on average. So, it is hard to paint a picture for the next month of this market going down much barring some unanticipated geopolitical or macro event. In the bond market, I don't think the Fed wants to see rates go much higher as it would undermine the easy money stance it has taken to stimulate risk assets. So maybe the trading range of the 10-year moves from what was 1.8% - 2.1%, to a new level some 20-40 basis points higher, say 2% - 2.5%.

**\*\*The Weekly Financial Data Sheet is attached\*\*.**

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**Economy**

* Retail sales grew 1.1% in February (1.6% including upward revisions to December/January). The consensus expected an increase of 1.1%. Retail sales are up 6.5% versus a year ago.
* The Producer Price Index (PPI) rose 0.4% in February, coming in slightly below the consensus expected gain of 0.5%. Producer prices are up 3.3% versus a year ago. The "core" PPI, which excludes food and energy, rose 0.2%.
* The Consumer Price Index (CPI) increased 0.4% in February exactly as consensus expected. The CPI is up 2.9% versus a year ago. The increase in the CPI was mainly due to a 3.2% gain in energy. Most other categories also rose. The "core" CPI, which excludes food and energy, was up 0.1%, coming in below consensus expectations, but is up 2.2% versus last year.
* New claims for unemployment insurance dropped 14,000 last week to 351,000, the lowest level since March 2008. The four-week average remained at 356,000. Continuing claims fell 81,000 to 3.34 million, the lowest since August 2008.
* Industrial production was unchanged in February, but up 0.3% including upward revisions to prior months. The consensus expected a gain of 0.4%. Production is up 4.0% in the past year. Manufacturing, which excludes mining/utilities, rose 0.2% in February but was up a very strong 0.7% including upward revisions to prior months. Auto production fell 1.2% in February while non-auto manufacturing rose 0.4%. Auto production is up 13.3% versus a year ago while non-auto manufacturing is up 4.6%.
* Overall capacity utilization ticked down to 78.7% in February from a revised 78.8% in January. Manufacturing utilization was at 77.4% close to its 20-yr average of 77.7%.

**Bonds**

* The 10-year UST yield rose sharply and broke out of their trading range as investors shifted out of Treasuries and into riskier assets such as equities. The yield rose 26 basis points to 2.29% from 2.04%.
* The ML high yield 100 index yield fell to 6.4.% from 6.52%.
* The average 30-yr Fixed Mortgage climbed to 4.2% from 4.05%.

**Stocks**

* Stocks rallied strong around the world in the week with the DJIA jumping solidly above 13000 to 13,232, up 2.4%. The S&P 500 closed at 1404.17, up 2.43% while the NASDAQ reached 3055.26, up 2.24%. Led by Apple, the NASDAQ now stands 17% higher YTD.
* The Euro 600 Stoxx climbed 2.62% and now stands 11.4% higher YTD.
* DJ Asia/Pac index moved up .06%.

**Commodities & Currencies**

* Gold fell sharply by 3.2% to 1655.5 from 1710.9 per oz.
* The price of crude oil was flat at 107.06 from $107.40.
* The dollar fell very slightly against the Euro to 1.3175 from 1.3123.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13232.62 | 310.60 | 2.40% |
| **S&P 500** | 1404.17 | 33.30 | 2.43 |
| **NASDAQ Comp** | 3055.26 | 66.92 | 2.24 |
| **S&P Mid Cap** | 1000.73 | 15.92 | 1.62 |
| **S&P Small Cap** | 461.77 | 8.08 | 1.78% |
| **Russell 2000** | 830.18 | 13.18 | 1.61% |
| **Euro Stoxx 600** | 272.4 | 6.96 | 2.62% |
| **Dow Asia/Pacific** | 132.43 | .85 | .65% |

|  |  |
| --- | --- |
| **Strong Sectors** | Industrials, Financials, Technology |
| **Weak Sectors** | Consumer Goods & Services, Telecom |
| **NYSE Advance/Decline** | 1,777 / 1,395 |
| **NYSE New High/Low** | 355 / 39 |
| **AAII Bulls/Bears** | 42.4% / 29%  |

**This week's Italian Wine Tip - Barbera di Alba & Barbera di Asti**

I can't believe I haven't talked about two of my favorite and most versatile wines yet -- Barbera di Asti and Barbera di Alba. Made from the Barbera grape in Piedmont, the same locale where we get Barolo and Barbaresco from, these 2 wines are very similar but different at the same time. The towns of Alba and Asti stand only about 10 miles apart and are two beautiful ancient villages with long traditions. Barbera is the 2nd or 3rd most produced grape variety in Italy, so the wines are abundant and easy to find. The wines are very fruity, dark in color, generally aged in oak for some time and very smooth. They can be drunk soon after a vintage is released or aging for a few years is preferred. Barbera is a great everyday wine and whether you get an Asti or Alba, they both tend to be consistently good. They pair well with many everyday foods including Pizza, pasta, tomato-based dishes and soft or aged cheeses. Alba wines tend to be fuller-bodied with less acidity while Asti is lighter-bodied with tarter fruit flavors and more acidity. Look for some aged in Oak to get a fuller flavor. The wines are priced to sell ranging from $10 - $18 generally. So grab a bottle of each and do your own taste test!

Have a great week!

Ciao!

Bob

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### From the Desk of Bob Centrella, CFA: March 12, 2012

" Now you see it now you don't"

Dear Friends,

Sorry, I have no joke this week but the jobs recovery taking place in the US seems to be no laughing matter. It was an interesting week in the market as the stock indexes fell sharply on Tuesday over Greece concerns with the S&P 500 dropping 1.5%. It had all the makings of the start of a potential market correction. But then a funny thing happened, the market pulled a "now you see it now you don't" trick and stocks rallied for 3 straight days in the US to actually advance for the week. The cause of the rally was -- you guessed it -- a Greek debt restructuring deal. Greece got its restructuring pact but technically ended the week in default. The country will get relief from a $266 billion restructuring of its debt but many problems still lie ahead including billions in losses for Greek banks that need to recapitalize and pension funds that need to be replenished.

Back here in the US, the jobs picture seems to be getting better at first blush as US payrolls climbed by 227K jobs in February. This is the 3rd straight month of over 200K job creation with hiring being broad-based across sectors. In all, the economy has added 1.2 million jobs in the last 6 months, the fastest pace since 2006. Sounds great right? Before we get too euphoric lets remember that more than 2.5 years since the recession ended the economy still has 5.2 million FEWER jobs than 4 years ago. And, since more unemployed are re-entering the jobs market, the unemployment rate stayed flat at a still high 8.3%. So, the news is encouraging but we still have a long way to go. Remember, the unemployment rate is a bit misleading because so many Americans simply stopped looking for jobs. With more jobs seemingly being created. many of those forcefully retired workers may re-enter the job market.

Last week we also celebrated the 3 year anniversary of the market low hit in March 2009. Here is a link to an article written by Adam Shell, USA Today financial writer (and Westfield resident) that provides a very good summary and points out some very true risks that the market faces. He also happens to give me a brief moment of fame with a quote and mention in the article. (<http://www.usatoday.com/money/perfi/stocks/story/2012-03-07/bull-market-turns-three-years-old/53404148/1?loc=interstitialskip>). One interesting fact that was pointed out in Barron's this week about the rally is that although the S&P 500 operating profits and the index price have doubled in the last 3 years, S&P 500 revenues have only grown by 1%. That's not a typo - only 1% revenue growth. So, S&P companies have achieved record profitability by cost-cutting (especially cutting jobs) over the past 3 years which explains the weak jobs market. Soon, companies will need to see revenue growth as companies are already near peak margins. Without revenue growth margins and earnings will flatten and stock prices will certainly drop or cease to rise.

Next week I'll get back to you with another Italian wine tip. I drank plenty of them over the weekend:)

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**Economy**

* Non-farm payrolls increased 227,000 in February and were up 288,000 including revisions to December/January. The consensus expected a gain of 210,000. Unemployment held steady at 8.3%. Meanwhile, the labor force increased 476,000 in February and is up 1.3 million in the past year. In other recent news on the job market, initial claims for unemployment insurance increased 8,000 last week to 362,000.
* Nonfarm productivity (output per hour) rose at a 0.9% annual rate in the fourth quarter, revised up from last month's estimate of 0.7%. Nonfarm productivity is up 0.3% versus last year.
* The ISM non-manufacturing composite index increased to 57.3 in February, beating the consensus expected decline to 56.0. (Levels above 50 signal expansion; levels below 50 signal contraction.) The new orders index rose to 61.2 from 59.4 and the business activity index increased to 62.6 in February from 59.5. The employment index fell to a still strong 55.7 from 57.4 and the supplier deliveries index fell to 49.5 from 51.0.
* The trade deficit in goods and services increased to $52.6 billion in January, much higher than the consensus expected deficit of $49.0 billion.

**Bonds**

* The 10-year UST yield rose due to the positive US economic data and the progress made in Greece. The yield rose to 2.04% from 1.99%
* The ML high yield 100 index yield fell jumped to 6.52% from 6.33%.
* The average 30-yr Fixed Mortgage was 4.05%.

**Stocks**

* The DJIA closed down .43% for the week at 12,922, its 2nd consecutive weekly loss. However, the S&P 500 climbed .09% while the NASDAQ rose .41%.
* Small cap stocks rallied most in the week as the Russell 2000 diverged from the market and jumped 1.82% making up for last week's out-sized loss.. We should continue to keep an eye on this development.
* Stocks around the rest of the world fell in the week. The Euro 600 Stoxx dropped .66%.
* DJ Asia/Pac index fell .91% and DJ Americas dropped .15%.

**Commodities & Currencies**

* Gold rose slightly by .12% to 1710.9 per oz..
* The price of crude oil climbed to $107.40 from $106.70 and stands 8.67% higher YTD.
* The dollar rose very slightly against the Euro to 1.3123 from 1.32.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 12922.02 | -55.55 | -.43% |
| **S&P 500** | 1370.87 | 1.24 | .09% |
| **NASDAQ Comp** | 2988.34 | 12.15 | .41% |
| **S&P Mid Cap** | 984.81 | 7.76 | .79% |
| **S&P Small Cap** | 453.69 | 7.46 | 1.67% |
| **Russell 2000** | 817.00 | 14.58 | 1.82% |
| **Euro Stoxx 600** | 265.44 | -1.77 | -.66% |
| **Dow Asia/Pacific** | 131.58 | -.94 | -.91% |

|  |  |
| --- | --- |
| **Strong Sectors** | Consumer Services, Financials, Technology |
| **Weak Sectors** | Oil & Gas, Basic Materials, Industrials |
| **NYSE Advance/Decline** | 1,667 / 1,401 |
| **NYSE New High/Low** | 248 / 46 |
| **AAII Bulls/Bears** | 42.4% / 29%  |

Have a great week!

Ciao!

Bob

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**\*\*\* Know someone who would like to receive a copy of my weekly newsletter? Please have them send me their email address.\*\*\***

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***From the Desk of Bob Centrella, CFA: March 5, 2012***

***"Things aren't always what they appear to be"***

Dear Friends,

I heard a good joke this weekend that I've got to work into the newsletter, so here goes. [A young boy enters a barber shop and the barber whispers to his customer, "This is the dumbest kid in the world. Watch while I prove it to you." The barber puts a dollar bill in one hand and two quarters in the other, then calls the boy over and asks, "Which do you want, son?" The boy takes the quarters and leaves. "What did I tell you?" said the barber. "That kid never learns!" Later, when the customer leaves, he sees the same young boy coming out of the ice cream store. "Hey,son! May I ask you a question? Why did you take the quarters instead of the dollar bill?" The boy licked his cone and replied, "Because the day I take the dollar, the game is over!"]

LOL! My point today is that things may not always be what they appear to be. I guess I am still thinking about this rally we've been lucky to have. On the one hand, the market is up over 20% since October and looks to be reacting to news around us. On the other hand, even though the market seems strong, it just doesn't feel like it is sustainable yet. As I've talked about in previous newsletters, the Fed, the ECB and the Bank of England have flooded the markets with cash. Rates are low and investors are being nudged to risk assets. In the meantime, the US economy has slowly gained some traction, the Greek situation has, I guess, gotten somewhat better and there is some calm in Europe. But is all really well and good out there? If we didn't have accommodative Central Banks, where would we be? It just seems to me that the Central Banks need to stay the course long enough for everything to be on the cusp of turning for the better. If they let the foot off the gas pedal too soon, the dominoes could certainly fall.

So as we play the waiting game what needs to happen? Here are 4 things I'd like to see occur. First, the Euro debt situation must be contained. Greece needs to begin acting on austerity measures, Italy and Spain need to continue down their paths of austerity and debt reduction and we can't see any more problems elsewhere. Second, the US economy needs to continue to pick-up momentum in both the housing and jobs markets. Real jobs are not being created. Third, the Euro recession needs to be shallow. It is already assumed that there will be GDP contraction in Europe. The slowdown must be shallow and growth must resume this year. Finally, and probably most important, the central banks must hope that inflation remains subdued and they can extricate themselves for the easy monetary policy on a gradual basis.

Regarding the possibility of a market correction I offer a few points. First, since everybody is looking for one, it might not occur. I think it would be healthy but generally when the masses expect one thing, something else occurs. Secondly, if it does occur, it should be shallow (maybe around 3%-5%) as too many above the prior-mentioned investors are looking for a chance to get in. On a support level, the S&P 500 has decent support at 1300 which happens to be 5% lower. Two macro issues that could hurt the market are rising energy prices and the possibility of Israel attacking Iran. If war erupts in the middle-east, look out risk assets.

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**Economy**

* New orders for durable goods dropped 4.0% in January, coming in way below the consensus expected loss of 1.0%. Orders excluding transportation fell 3.2%, also well below consensus expectations of no change. Overall new orders are up 8.1% from a year ago, while orders excluding transportation are up 5.7%.
* The Case-Shiller index, a measure of home prices in the 20 largest metro areas around the country, declined 0.5% in December (seasonally-adjusted) and is down 4% versus a year ago. The index is now the lowest in almost 10 years.
* Real GDP was revised up to a 3.0% annual growth rate in Q4 from a prior estimate of 2.8%. The consensus had expected GDP growth to remain unchanged at 2.8%. Nominal GDP (real growth plus inflation) grew at a 3.9% annual rate in Q4, up from the original estimate of 3.2%, and is up at a 3.8% rate in the past year.
* The ISM manufacturing index fell to 52.4 in February from 54.1 in January, coming in below the consensus expected 54.5. The new orders index fell to 54.9 from 57.6, the production index slipped to 55.3 from 55.7 and the employment index fell to 53.2 from 54.3. The supplier deliveries index declined to 49.0 from 53.6.
* Home building was up 1.8% in January, the sixth straight monthly gain. Single-family home building is up eight months in a row
* New claims for unemployment insurance declined 2,000 last week to 351,000. The four-week average dropped to 354,000, the lowest since March 2008. Continuing claims dipped 2,000 to 3.40 million, the lowest since August 2008

**Bonds**

* The 10-year UST rallied a bit on the uncertain news as the yield dropped to 1.98% from 2.012%.
* The ML high yield 100 index yield fell to 6.23% from 6.47%.
* The average 30-yr Fixed Mortgage rose to 4.05% from 4%

**Stocks**

* The DJIA closed down .04% for the week at 12,977, its first weekly loss in 3 weeks although it did close above 13,000 on Thursday. The NASDAQ rose .42% to 2976, its 8th weekly gain in the last 9 weeks. The S&P 500 closed up .28% to 1369.
* Small cap stocks struggled in the week as the Russell 2000 diverged from the market at fell 2.96%. We should keep an eye on this development.
* Euro 600 Stoxx rose .92% and now stands 9.3% higher for the year.
* Asian and Americas stocks both rose slightly. DJ Asia/Pac is up 12.8% YTD while DJ America stands up 10%.

**Commodities & Currencies**

* Gold tumbled 5% on Wednesday after Bernanke failed to hint that QE3 is coming. Investors used the event to sell the precious metal. It finished the week down 3.74% to 1708.80.
* The price of crude oil dropped 2.8% to $106.70, but stand 8% higher YTD. Gasoline prices have risen 20% recently. Energy prices are probably the biggest near-term risk to the market and the economy.
* The dollar rose against the Euro from 1.3449 to 1.32.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 12977.57 | -5.38 | -.04% |
| **S&P 500** | 1369.63 | 3.89 | .28% |
| **NASDAQ Comp** | 2976.19 | 12.44 | .42% |
| **S&P Mid Cap** | 977.05 | -8.31 | -.84% |
| **S&P Small Cap** | 446.23 | -13.53 | -2.94% |
| **Russell 2000** | 802.42 | -24.50 | -2.96% |
| **Euro Stoxx 600** | 267.21 | 2.44 | .92% |
| **Dow Asia/Pacific** | 132.52 | .27 | .20% |

|  |  |
| --- | --- |
| **Strong Sectors** | Consumer Services, Financials, Technology |
| **Weak Sectors** | Oil & Gas, Basic Materials, Industrials |
| **NYSE Advance/Decline** | 1,401 / 1,759 |
| **NYSE New High/Low** | 383 / 27 |
| **AAII Bulls/Bears** | 44.51% / 26.83% (small change) |

Have a great week!

Bob

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**From the Desk of Bob Centrella, CFA: February 27, 2012**

***"It Seems to be a Fragile Recovery"***

(Weekly Wine tip on Brunello at the end of today’s' newsletter)

Dear Friends,

When I write my weekly letter I try to keep it light, optimistic and generally politically neutral. There is enough bad news and naysayers out there so no need to bring up the negatives constantly. It's very easy to paint a dire future in the financial and economic markets but I prefer to do the Monty Python and "always look on the bright side of life" de-doo, de-doo de-doo de-doo (I bet you are whistling right now -- I am!) See it works. However, when investing, I look at the full picture and make decisions based on the real conditions we face ahead of us. The current rally in equities across the globe is impressive but it is fragile. The rise has been on light volume (20% lower than last year) and there are still a lot of non-believers on the sideline waiting for a correction. Funny that the markets are trading on whether tiny Greece can get its debt to 125% of GDP by 2020! Well fortunately last week major indices were slightly up as the latest Greek bailout was approved by European authorities and several tentative signs of a continuing economic recovery appeared. But, continuing anxiety about the situation in Greek and the larger euro zone kept the markets mostly flat; though the Dow flirted with going over 13,000 and did so during day trading, it ended up closing below every day during the week.

Will a correction come? It is likely that in some form it will come, however the fact that volume is light and there are still a lot of investors waiting to participate, points to a shallow drop barring any unforeseen macroeconomic or geopolitical event. Our economy clearly has gotten slightly better although the easy monetary policy around the globe may be propping up risk assets. One threat we need to watch is rising oil prices. Rising oil and gas prices could curtail consumer spending and have a negative effect on GDP growth. Over the past few weeks US Crude has jumped 10% to $109.77. And outside the US, Brent crude has been above $100 for 2/3 of a year.

Most of you probably know that I am a proud political conservative but I try to write an even-handed newsletter and stay away from politics. Well, this week I must deviate a little bit. This past Friday, I had the great pleasure (for the 2nd year in a row) of attending a dinner celebration with a table full of friends. The occasion was the NJ Republicans 101st birthday celebration for Ronald Reagan. I dare to bring this up because his presidency is such a stark contrast to that of our current President. I will not go on and on about the differences, because there are just too many. But one thing that sticks out in my mind is the current state of the jobs market. Each week the media cheers and the market moves ahead when the jobless claims number appears. We've seen the claims number stay below 400,000 for several weeks now and we hear about the creation of jobs. I hate to break it to you but we are still over 1 million jobs on the lost side in the past 3 years. So yes, maybe a few more jobs are being created now, but we have a long way to go. And many of the jobs being created are lower paying and non professional. Consider this, even though Reagan had a tough first 3 years in office too, when the Reagan Revolution took hold, the economy hummed and he created 19 MILLION jobs by the time he left office. And he didn't do it by raising taxes. As Reagan said, "common sense told us that when you put a big tax on something, the people will produce less of it". Reagan's economic program brought about the longest peacetime expansion in our history; personal incomes up, poverty down, entrepreneurship booming and a explosion in R&D. Sounds like a good healthy dose of what we can use now. Anyway, enough said -- there was only one Reagan, love him or hate him, he was the "Great Communicator". My last mention of Reagan is that if you have some time, go to You-tube and watch his 1981 commencement speech at Notre Dame. You can use the following URL (<http://www.youtube.com/watch?v=P0EDIQ5uEEo>). Amazing how much that speech describes today’s' global environment.

\*\*\*Given the market uncertainty, it is a great time for a portfolio consult. If you know anybody that would benefit from a fresh look at their investment allocation, please send them our way. [**Click Here to Contact us for a Free "2nd Opinion" Portfolio Review and Investment Consult**](http://forzainvestment.com/Contact_Us.html) \*\*\*

**Economy**

* Existing home sales increased 4.3% in January to an annual rate of 4.57 million units. The monthly increase was larger than the consensus expected, but the level was lower because December was revised down significantly. Existing home sales are up 0.7% versus a year ago. The median price of an existing home fell to $154,700 in January (not seasonally adjusted), and is down 2.0% versus a year ago
* New single-family home sales fell 0.9% in January to a 321,000 annual rate, beating the consensus expected pace of 315,000. The months' supply of new homes (how long it would take to sell the homes in inventory) fell to 5.6, the lowest since 2006.
* New claims for unemployment insurance were unchanged at 351,000 last week. The four-week moving average declined to 359,000, the lowest since March 2008. Continuing claims for regular state benefits dropped 52,000 to 3.39 million

**Bonds**

* The 10-year UST rallied a bit on the uncertain news as the yield dropped to 1.98% from 2.012%.
* The ML high yield 100 index yield fell to 6.23% from 6.47%.
* The average 30-yr Fixed Mortgage rose to 4.05% from 4%

**Stock Market**

* The market moved ahead slightly with the Dow briefly crossing 13,000 intraday during the week but never closing above it. The Dow finished the week at 12,982, up .26% while the S&P 500 finished at 1365.74 up .33%. The NASDAQ closed up .41% at 2963.
* The Stoxx Europe 600 took the Greek debt deal in stride but moved slightly lower to 264.77, down .44%.
* Asian stocks rose with the DJ Asia/Pac index climbing .83% to 132.52 YTD it stands up 12.5%.

**Commodities & Currencies**

* Gold rose 2.93%from 1723.30 an ounce to 1775.10.
* The dollar dropped against the Euro to 1.3449 from 1.3119 on the Greek debt deal.
* US Oil prices shot up to $109.77 from 103.24 and up $11 from 2 weeks ago at $98.67.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 12982.95 | 33.08 | .26% |
| **S&P 500** | 1365.74 | 4.51 | .33% |
| **NASDAQ Comp** | 2963.75 | 11.97 | .41% |
| **S&P Mid Cap** | 985.36 | .76 | .08% |
| **S&P Small Cap** | 459.76 | -2.01 | -.44% |
| **Russell 2000** | 826.92 | -1.76 | -.21% |
| **Euro Stoxx 600** | 264.77 |  | -.44% |
| **Dow Asia/Pacific** | 132.52 |  | .83% |

|  |  |
| --- | --- |
| **Strong Sectors** | Oil & Gas, Technology, Telecom |
| **Weak Sectors** | Financials, Consumer Service, HCare |
| **NYSE Advance/Decline** | 1790 / 1343 |
| **NYSE New High/Low** | 336 / 7 (ONLY 7 new lows!) |
| **AAII Bulls/Bears** | 43.69% / 27.61% (small change) |

This week's Italian Wine - The Mighty Brunello di Montalcino

**Brunello di Montalcino**, alongside Chianti is arguably the most prestigious of all Italian wines. The wine is made exclusively from Sangiovese grapes grown in Montalcino - a classic Tuscan hilltop village 20 miles (30km) south of Siena. There are many types of Sangiovese grapes grown throughout Italy. Brunello translates roughly as 'little dark one', and is the local vernacular name for Sangiovese Grosso, the large-berried form of Sangiovese which grows around Montalcino. I've been fortunate enough to be in Montalcino several times and have never been disappointed either with the wines or the beauty of the countryside and the town itself. There are so many great Brunello wines that I hesitate to even mention any by name because for every one that I like you will find 2 more that you might like better. Brunellos should be aged and drunk after at least about 5 years, more like 10+ years. We have some 1995-1997 Brunello that still taste fantastic. There have been a lot of highly rated vintages with the 2004 being one of the great ones most recently. My advice if you want to pay-up and buy some Brunello is to look for the 2004 and buy them up. The 2006 which should be released this year is also going to be a great vintage. Going back a few years, 2001 was one of the greatest ever. Stay away from 2002 as Italy had a lot of rain and the wines in Montalcino were not very good that year. Unfortunately, since the wine is so popular and ages so well, it tends to cost more. The prices range all over the board but you can find great wines in the $40-$60 range (try online). You can also find some decent Brunellos in the $25-$35 range on sale. Just be careful of the year you buy. 2003 and 2005 were decent years (rated 88-89 points) too.

If you can't afford a Brunello, try its baby brother -- **Rosso di Montalcino**. The Rosso is aged less than half the time but is generally made from the same grapes. It can be drunk a little younger and tends to cost in the $16 - $22 range.

So what makes the Brunello so good? First, it is aged in oak and then not released for at least 4 years. This time in the barrel gives it that big, bold taste but not overpowering. Another reason why it cost more. For me, it is the big fruit flavor that I like so much and its deep purple color. It goes great with hearty pasta with red sauce, steaks and especially veal. For a cheese, try something a little stronger like a parmgiano reggiano, asiago, pecorino, gouda or provolone. I've also had it with fresh, soft mozzarella. Drizzle some Extra Virgin Olive Oil in a bowl, add a little basil and pepper and you can dip away with your Italian bread and cheese and feel like you are in the Italian countryside. **Mamma mia, tutto buono**!!

Have a great week!

Ciao!

Roberto

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***From the Desk of Bob Centrella, CFA: February 21, 2012***

***"Maybe the Stock Market is the Only Game in Town* "**

Dear Friends,

I hope you had a nice Presidents day extended weekend. We ended up buying a car and helping out the economy with our taxes. I'll spare you the details but it wasn't as bad as the horror I was expecting since we bought from a wholesaler. In case you are also following my back saga, I am feeling much better and ready to resume workouts. Golf season is almost here as I have given up on the snow.

So have you noticed that now all of a sudden, stocks don’t want to go down. Every time we get a little sell-off, stocks seem to rally at the end of the day and then rise the next day. At some point, the market still needs to consolidate its gains. I thought it might be this month as February has a history of being a down month but the forces at work are strong. Right now, the Dow and S&P 500 are sitting near 52 week highs and have to get thru some serious resistance levels (13,000 and 1365) before moving higher. This will be a real test of the staying power of this rally. So, let’s look at what may have been driving the rally into the latest gear. First and foremost, the Greek austerity agreement has been poised to be signed. Of course, we’ve been hearing this like a broken record for the past few weeks that the finalized deal is imminent. Meanwhile the market is taking this same news and liking it, similar to the summer and fall when the same negative news was taken day after day and the market was selling off. (And it looks like that this morning, a deal has in fact been signed and the package is worth 130 billion Euros -- sell on the news?.) As a result, Europe has stabilized somewhat and talk of the problems at Spain, Italy, Ireland and Portugal have fallen off the front page. Secondly, at home here in the US, the economic news has been encouraging and Corporate Profits have been good, although certainly not great. The jobs market has finally found a positive trend, the housing market is slowly working its way back and manufacturing and service activity is going in the right direction. Another factor is that at the start of the year, investors were still very cautious and favoring less risky securities (large cap high dividend stocks, consumer companies, telecom, and bonds for instance). Now they seem to be chasing their tails to participate in the rally and not get left behind. Finally, with interest rates on fixed income securities at such a low rate, and the Fed, the ECB and the Bank of England with their foot on the accelerator, stocks are the only game in town for generating return.

An interesting factoid I pulled out of Barron’s – those same 3 central banks have combined balance sheets of $7.6 Trillion that has been aimed squarely at fixing the financial mess by making money/credit cheap around the globe. That is up about 350% from before the financial crisis. So a lot of money has been thrown into the markets by the central banks and this has given support to steer investors into riskier assets (i.e., stocks). At some point in the future, the central banks will slow and then stop easing. It will be a tricky maneuver that will take time to unwind, but be sure that unless the economies around the world are humming, there could be some fallout. But that is likely at least a year away, so let’s keep focused on the near-term and I still suggest you harvest some gains and keep a little powder on the side for any dips to buy your favorite stocks or ETFs.

\*\*\*Given the market uncertainty, it is a great time for a portfolio consult. If you know anybody that would benefit from a fresh look at their investment allocation, please send them our way. [**Click Here to Contact us for a Free "2nd Opinion" Portfolio Review and Investment Consult**](http://forzainvestment.com/Contact_Us.html) \*\*\*

**Economy**

Last week was a busy week for economic news. Most of it was encouraging, though it likely dampens the need for a 3rd round of quantitative easing.

* Retail sales grew 0.4% in January (0.2% including downward revisions to November/December). The consensus expected an increase of 0.8%. Retail sales are up 5.8% versus a year ago. Surprisingly, despite automakers reporting sales at the fastest pace since early 2008, motor vehicles were the weakest part of January retail sales according to today’s government report.
* Industrial production was unchanged in January, but up 0.6% including large upward revisions to prior months. The consensus expected a gain of 0.7%. Production is up 3.3% in the past year. Overall capacity utilization ticked down to 78.5% in January from 78.6% in December.
* Housing starts increased 1.5% in January to 699,000 units at an annual rate, easily beating the consensus expected pace of 675,000. Starts are up 9.9% versus a year ago. The increase in starts in January was all due to multi-family units, which are extremely volatile from month to month. Single-family starts dipped 1.0%. Notably, the number of single-family homes under construction increased 2.1% in January, the largest gain since 2004.
* The Producer Price Index (PPI) rose 0.1% in January, coming in below the consensus expected gain of 0.4%. Producer prices are up 4.1% versus a year ago.
* The Consumer Price Index (CPI) increased 0.2% in January versus a consensus expected gain of 0.3%. The CPI is up 2.9% versus a year ago. Core CPI also increased .2%.
* New claims for unemployment insurance dropped 13,000 last week to 348,000, the lowest level since March 2008. The four-week average dropped to 365,000. Continuing claims fell 100,000 to 3.43 million, the lowest since August 2008.

**Bonds**

* Investors rotated out of safe-harbor Treasury Bonds and into US stocks. The benchmark 10-year note rose to 2.012% from 1.97% the prior week. The yield on the 10-year has stayed in a 1.78% - 2.17% range since November.

**Stock Market**

* The market powered ahead despite Athens burning, negative GDP growth in the Eurozone, Moody’s downgrades of banks and watch-listing of numerous other banks. The Dow gained 1.16% to 12949 while the S&P 500 rose 1.38% to 1361. Both indexes are standing at the threshold of major resistance levels that they will need to get through before moving higher. The market is now 24% higher than its low in October when the rally started.
* The Stoxx Europe 600 shrugged off all the bad news to move 1.8% higher to 265.93
* Asian stocks rose with the DJ Asia/Pac index climbing 1.6%. YTD it stands up 11.6%.

**Commodities & Currencies**

* Gold rose slightly to 1724.5 from 1723.30 an ounce.
* The dollar gained slightly against the Euro to 1.3144 from 1.3119.
* US Oil prices shot up to 103.24 from $98.67.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 12949.87  | 148.64 | 1.16% |
| **S&P 500** | 1361.23 | 18.59 | 1.38% |
| **NASDAQ Comp** | 2951.78  | 47.9 | 1.65% |
| **S&P Mid Cap** | 984.60 | 20.11 | 2.09% |
| **S&P Small Cap** | 461.77 | 8.77 | 1.94% |
| **Russell 2000** | 828.68 | 15.35 | 1.89% |
| **Euro Stoxx 600** | 265.93 |  | 1.8% |
| **Dow Asia/Pacific** | 131.43 | 1.90 | 1.5% |

|  |  |
| --- | --- |
| **Strong Sectors** | Oil & Gas, technology, Telecom |
| **Weak Sectors** | Utilities, Basic Material, industrials |
| **NYSE Advance/Decline** | 2185 / 972 |
| **NYSE New High/Low** | 362 / 7 |
| **AAII Bulls/Bears** | 42.71% / 26.63 (10 point drop in bulls) |

Have a great week! Be back next week with a look at a great wine, the Italian Brunello di Montalcino.

Ciao!

Bob

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***From the Desk of Bob Centrella, CFA: February 13, 2012***

*"****What is normal anyway?"***

Dear Friends,

Well, after 7 chiropractic visits and 3 acupuncture sessions, my back is feeling much better - maybe about 85% normal. Not bad, 2 weeks to get back to good health from literally being flat on my back. We can only wish that the US Economy could have undergone such rehab to get back to normal health. But, as I sit here making that wish for our economy (as well as problems around the world), I have to wonder "what is normal, anyway?" For all the averages we talk about (i.e., average market return, average economic growth, average snowfall in the winter...), I find it hard to recall a normal period that lasted more than a short cycle. For instance, let's take a look back about 15 years and see what has happened. (queue the nostalgia music...)

In the mid to late 90's we had the Internet bubble where the economy was strong and stocks rose from 1995 to 1999 an incredible 29% per year. Bonds participated as well to some extent until rates rose as the economy heated up. Then we had to deal with Y2K (Year 2000 issues and fears). Then came the saddest day in our history, 9/11/01 - which put the markets and the economy in a downward spiral. Next came the period of Corporate Greed scandals with Tyco, Worldcom, Healthsouth and others in 2002. From 2003 to 2006 we had the housing and sub-prime housing boom, where stock markets and bond markets on average actually returned close to their historical average returns. In 2007 and 2008 we hit the sub-prime bust and the near collapse of our financial system including the failure of Bear Stearns and Lehman Brothers. We've been fighting ever since to get the economy back on target. The last 2 years we've been dealing with the US budget deficit and downgrade of our credit ratings and of course the European debt crisis now ongoing. So, for ensuing period 2000-2011, the S&P 500 returned a whopping 1% on average. Bonds were much friendlier returning closer to their historical average return of 6%.

Where am I going with all this? Honestly, I'm not sure. I think I started rambling and liked the theme I came up with. But seriously, I think that my point is this --there really such a thing as normal health for the economy, the markets, the world economy, etc. You can extend this exercise back in history too and find that there may be brief periods of "normalcy" but in general there is always something going on. Each short-term market cycle of 3-5 years has its own set of unique issues and that is the history and is going to be the future too. But through thick and thin, the market for all its volatility (about 19.9% standard deviation since 1900) is resilient. Currently we are in the midst of the latest set of major issues and even though they seem insurmountable at times, be assured that it’s been done before and hopefully we will persevere.

This morning, although Greece has erupted in more violence, its parliament passed the austerity program and Global stocks are reacting positively. Let's see if we can hold the gains. I continue to like the market long-term but think some consolidation of short-term gains is necessary to move ahead.

\*\*\*Given the market uncertainty, it is a great time for a portfolio consult. If you know anybody that would benefit from a fresh look at their investment allocation, please send them our way. [**Click Here to Contact us for a Free "2nd Opinion" Portfolio Review and Investment Consult**](http://forzainvestment.com/Contact_Us.html) \*\*\*

**Economy**

* The trade deficit in goods and services increased to $48.8 billion in December, slightly higher than the consensus expected deficit of $48.5 billion. Exports rose $1.2 billion in December, led by fuel oil and autos/parts. Imports increased $3.0 billion, led by a broad rise in consumer goods, autos/parts and capital equipment including machinery and aircraft . In the last year, exports are up 9% while imports are up 11.3%. N
* New claims for unemployment insurance dropped 15,000 last week to 358,000. The 4-week average dropped to 356,000, the lowest since April 2008.

**Bond Market**

* The yield on the 10-yr UST rose to 1.97% from 1.94% last week.
* The Merrill Lynch 100 High Yield Index saw its yield drop slightly to 6.60% from 6.64%.
* The average 30-yr fixed rate mortgage rose to 4.04% from 3.99% while the average 15-yr moved to 3.39% from 3.33%

**Stock Market**

* The Dow pulled back a bit mostly due to a drop on Friday. The DJIA fell 61 points to 12,801 to finish the week down .47%. The NASDAQ was flat at down .06% while the S&P 500 fell .17% to 1342.64.
* In Europe, the Stoxx 600 fell 1.27% for the week due to the Greek waffling. The biggest movers were the Belgium market -3.2% and the French DAX off 1.6%. YTD the Stoxx 600 is up 6.8%
* Asian stocks rose slightly with the DJ Asia/Pac index climbing .51%. YTD it stands up 10%.
* Finally the DJ Americas index fell .46.

**Commodities & Currencies**

* Gold dropped $14.60 to 1723.30 an ounce, off .84% for the week.
* The dollar gained slightly against the Euro to 1.3199 from 1.3219.
* US Oil prices fell to 98.67 from $99.56.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 12801.23  | -61.00 | -.47% |
| **S&P 500** | 1342.64 | -2.26 | -.17% |
| **NASDAQ Comp** | 2903.88 | -1.78 | -.06% |
| **S&P Mid Cap** | 964.49 | -6.76 | -.70% |
| **S&P Small Cap** | 453.00 | -10.56 | -2.28% |
| **Russell 2000** | 813.33 | -17.78 | -2.14% |
| **Euro Stoxx 600** | 261.24 |  | -1.27%  |
| **Dow Asia/Pacific** | 129.53 |  | +.51% |

|  |  |
| --- | --- |
| **Strong Sectors** | Info tech, Consumer staples, Consumer discretion |
| **Weak Sectors** | Materials, Finance, HC |
| **NYSE Advance/Decline** | 1254 / 1900 |
| **NYSE New High/Low** | 374 / 15 |
| **AAII Bulls/Bears** | 51.64% / 20.19 |

**LAST WEEK'S ITALIAN WINE TIP**

I thought I'd repeat last week's wine tip on one of my favorite versatile wines – Aglianico (for you non-Italians it is pronounced “ahh-lee-ahn-ico”. It is also known as a Taurasi – this are is typically where some of the better Aglianico wines are produced.

Aglianico is an Italian red wine based on the Aglianico grape and produced in the Basilicata region of Italy (near Potenza and east of Naples). It’s a beautiful dark Purple color and is medium to full-bodied. There are many Aglianicos that can be drunk within 2-3 years but they age well and the top wines can be aged up to 20 years. I like drinking them when they are 4-5 years old if you can find them. They are reasonably priced and there are many producers selling around $14-$18 per bottle. I think it pairs well with all kinds of meats, pasta with red sauce and other hearty and spicier dishes. You can even try it with Chili! Two good producers are Feudi San Gregorio and Irpinia. Feudi also make some great white wines as well and a high end Aglianico called “Serpico” that is great if you can afford it. So give it a try and let me know what you think.

Have a great week!

Bob

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### From the Desk of Bob Centrella, CFA: February 6, 2012

"***One GIANT Move Ahead for the Economy"***

(page down for your Italian Wine Tip)

Dear Friends,

Look out New York, a ticker tape parade is coming to town! Congrats to the NY Giants and all Giant fans for their victory last night in a very entertaining Super Bowl. The market gets a theoretical boost too as the Super Bowl indicator flashed a positive signal since one of the original NFL teams won. The indicator has predicted with over 80% accuracy that if an original NFL team wins the Super Bowl, the Dow will rise for the year. Go figure…

Last week was a good one for the markets and the US Economy took a GIANT step forward with lots of good news propelling the stock market higher for the week. See the highlights below. The Dow rose to its highest level since before the Lehman crisis in 2008 and now stands only 138 points from 13,000. The jobs market surprised big-time on the upside on Friday as the unemployment rate dropped to 8.3% and over 257K private payroll jobs were added.

A friend of mine last night challenged me to work Madonna into my newsletter this morning and tie it into the economy. So, never one to back off a challenge -- watching Madonna at halftime last night did make me think of a famous Clint Eastwood movie “The Good, The Bad and The Ugly”; which in turn brings me to the current state of the economy. With Madonna, the Good is that for 50-something, she still looks pretty good. The Bad is that Lady Gaga now does Madonna better than Madonna. The Ugly was watching a 53 year-old trying to make us think she was still 23 – didn’t work. Oh, and she almost fell off the stage! For the US Economy, we saw the Good last week when the jobs market surprised on the upside. The economy added the most jobs in January since early last year and the unemployment rate dipped to 8.3%. The Bad is that for all the good news we are seeing, the economy still only grew by 2.8% last quarter. And, 8.3% unemployment is still pretty high. We need to see GDP growth accelerate above 3%. And the Ugly is still the potential for disaster due to the worldwide debt crisis. Greece still hasn’t reached a debt deal and there is a lot of work to be done among the rest of the PIIGS, if not in all of Europe. The Greek parliament simply cannot let a default happen.

So there you have it. Although there is much to be positive about, I still think that the market needs to pause a bit to allow more news to filter out for positive confirmation of the recent trends. Earnings season is winding down and typically that is when economic news moves front and center and there can be some volatility. I might be wrong here but after a nice move move since year-end, I think it would be prudent to at least take a little off the table. By and large, I am a buy and hold long-term investor. However like a farmer, you do need to harvest your gains every once and a while. The market is not expensive but in the short-term we might be a little overbought. A pause would be good for the overall market so gains can be consolidated. A lot of stocks look a bit extended and if you are putting new money to work, I urge you to not chase a good company.

So after 5 sessions with my chiropractor and 2 session of acupuncture, I am back on my feet and almost ready to resume normal life. My back is still sore but I can walk and ride a stationary bike. Yippee!

**\*\*\*BY THE WAY, PAGE DOWN TO GET TODAY"S PROMISED ITALIAN WINE TIP!** \*\*\*

\*\*\*With the new year here it is a great time for a portfolio consult. If you know anybody that would benefit from a fresh look at their investment allocation, please send them our way. [Click Here to Contact us for a Free "2nd Opinion" Portfolio Review and Investment Consult](http://forzainvestment.com/Contact_Us.html) \*\*\*

**Economy**

* Personal income increased 0.5% in December while personal consumption was unchanged. The overall PCE deflator (consumer inflation) was up 0.1% in December. Prices are up 2.4% versus a year ago. The “core” PCE deflator, which excludes food and energy, was up 0.2% in December and is up 1.8% since last year.
* The ISM manufacturing index increased to 54.1 in January from 53.1 in December, coming in slightly below the consensus expected 54.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
* Automakers reported January sales yesterday and they blew away consensus expectations. Autos and light trucks were sold at a 14.2 million annual rate, versus a consensus expected pace of 13.5 million. Sales were 4.6% higher than December and up 11.7% from a year ago.
* The ISM non-manufacturing composite index increased to56.8 in January, blowing away the consensus expected gain of 53.2. The service sector has now shown expansion for 25 straight months.
* In the big news for the week, the January employment report was very bullish. Non-farm payrolls increased 243,000 in January and were up 303,000 including revisions to November/December. The consensus expected a gain of 140,000. The unemployment rate dropped to 8.3% from 8.5% in December. Among other things the mild winter weather has aided the jobs number as less people were forced to stay away from work.

**Bond Market**

* The yield on the 10-yr UST rose to 1.94% from 1.896% last week as investors added risk to their portfolios and bought stocks.
* The Merrill Lynch 100 High Yield Index saw its yield drop slightly to 6.64% from 6.68%.
* The average 30-yr fixed rate mortgage fell to 3.99% while the average 15-yr dropped to 3.33%.

**Stock Market**

* The Dow reached its highest level since May 2008, prior to the Lehman Bros collapse propelled by the strong jobs numbers. The DJIA rose 156 points on Friday to 12,862 to finish the week up 1.6%. The NASDAQ powered ahead 3.2% while the S&P rose 1.46%.
* In Europe, the Stoxx 600 continued to move forward and rose 1.73% for the week led by the German DAX, up 1.67%, and the UK FTSE up 1.81%.
* Asian stocks fell slightly with the DJ Asia/Pac index falling .14%. however, YTD it stands up 9.4%.
* Finally the DJ Americas index rose 1.38% and now has risen 8.2% for the year. The Brazil Bovespa leads all markets up 14.9% for the year

**Commodities & Currencies**

* Gold rose 68.10 to 1731.80 an ounce, up 4.09% for the week.
* The dollar lost ground against the Euro again as the Euro climbed to 1.3219.
* US Oil prices climbed 1.23 to $99.56 at the end of the week.

**Weekly Index Performance:**

DJIA: 12862.23 (201.77, 1.6%)

S&P 500: 1344.9 (28.57, 2.2%)

S&P MidCap: 971.25 (29.14, 3.1%)

S&P Small Cap: 463.56 (18.73, 4.2%)

NASDAQ Comp: 2905.66 (89.11, 3.2%)

Russell 2000: 831.11 (32.26, 4.0%)

EU Stoxx 600: 264.6 (4.49, 1.73%)

Strong Sectors: Financials, Info Tech,Telecom

Weak Sectors: Utilities, Consumer Staples, Health Care

NYSE Advance/Decline: 2,496/ 665

NYSE New Highs/New Lows: 526/ 32

AAII Bulls/Bears: 43.8% / 25.1%

**TODAY'S ITALIAN WINE TIP**

I promised a wine tip today so I’d like to tell you about another one of my favorite versatile wines – Aglianico (for you non-Italians it is pronounced “ahh-lee-ahn-ico”. It is also known as a Taurasi – this are is typically where some of the better Aglianico wines are produced.

Aglianico is an Italian red wine based on the Aglianico grape and produced in the Basilicata region of Italy (near Potenza and east of Naples). It’s a beautiful dark Purple color and is medium to full-bodied. There are many Aglianicos that can be drunk within 2-3 years but they age well and the top wines can be aged up to 20 years. I like drinking them when they are 4-5 years old if you can find them. They are reasonably priced and there are many producers selling around $14-$18 per bottle. I think it pairs well with all kinds of meats, pasta with red sauce and other hearty and spicier dishes. You can even try it with Chili! Two good producers are Feudi San Gregorio and Irpinia. Feudi also make some great white wines as well and a high end Aglianico called “Serpico” that is great if you can afford it. So give it a try and let me know what you think.

Have a great week!

Bob

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***From the Desk of Bob Centrella, CFA: JANUARY 30, 2012***

***" It Could be a Bumpy Week Ahead"***

Dear Friends,

I'm going to be even briefer than normal today as I threw out my back over the weekend and it hurts to even sit at my desk. My advice to anyone with a crawl space basement (4 foot ceiling) -- don't spend 3 hours hunched over working on your drain pipes. I guess that's another reason why you hire a plumber... lesson learned.

Europe is back in the news this week as Germany's Finance Minister warned Greece that the euro zone might refuse to grant Greece a fresh bailout unless it can persuade Europe it can get its state and economy back on track. So the 10,000 pound anvil that has been hanging over the market's head seems to be slipping a bit and could come crashing down.

As the market has rallied since last month I've enjoyed it but I must admit that it just doesn't seem sustainable and I am looking for the market to pause, possibly starting this week. February has historically been a tough month (the 2nd worse month of the year for performance). It might be a good time to harvest some profits and pare back some positions if you have a trading account. If Greece and Europe get a deal done, I do like the market's potential going forward. The US economy is showing positive signs and although we are not out of the woods yet and Europe still faces a recession, there seems to be enough positive signs for US equities to do well this year.

Well, wish me luck at the chiropractor's today. Also, I owe you some wine tips so next week I promise something tasty. Best of luck to Giants and patriots fans in the Super Bowl.

\*\*\*With the new year here it is a great time for a portfolio consult. If you know anybody that would benefit from a fresh look at their investment allocation, please send them our way. \*\*\*

**Economy**

* New single-family home sales fell 2.2% in December to a 307,000 annual rate. The consensus expected a rate of 321,000. At the current sales pace, the months’ supply of new homes (how long it would take to sell the homes in inventory) rose slightly to 6.1. The increase in the months’ supply was due to the slower pace of sales. Inventories ticked down to 157,000 and are at the lowest level on record, dating back to 1963.
* New orders for durable goods increased 3.0% in December, beating the consensus expected gain of 2.0%. Orders excluding transportation rose 2.1%, also well above consensus expectations of a 0.9% rise. Overall new orders are up 17.0% from a year ago, while orders excluding transportation are up 7.0%.
* Initial claims for unemployment insurance rose 21,000 last week to 377,000. Continuing claims for regular state benefits increased 88,000 to 3.55 million
* The first estimate for Q4 real GDP growth is 2.8% at an annual rate, slightly less than the consensus expected 3.0% rate and up from 1.7% last quarter. The GDP price index increased at a 0.4% annual rate in Q4. Nominal GDP – real GDP plus inflation – rose at a 3.2% rate in Q4 and was up 3.7% in 2011.
* Real GDP has now accelerated for three quarters in a row, durable goods orders have jumped for the past two months and suggest that business investment will accelerate in 2012. With housing and investment improving, the Federal Reserve will have a difficult time justifying QE3.

**Bond Market**

* Treasuries rallied and yields declined across all maturities for the week, as a slew of economic data and some negative headlines pushed investors towards the safer assets.
* Wednesday, the FOMC announced its rate decision and indicated it would maintain low interest rates through at least 2014, lifting equities and rallying bonds. The 10-yr closed at 1.896%.

**Stock Market**

* US Stocks finished the week mixed. The Dow Jones lost 60.02 points to 12660.46 or (-.47%) while the S&P 500 inched up .07% to finish at 1316.33. NASDAQ stocks moved up 1.07 to 2816.55% primarily due to Apple's jump of about 5% after reporting very strong earnings. Apple is now the most valuable company in the world with over $400 billion market cap.
* The Euro Stoxx 600 declined slightly by -.18% as the German DAX rose 1.68%, the French CAC fell .08% and Italy climbed 2.01%
* Asia stocks also had a nice week with the DJ Asia/Pac index rising 1.94%.
* Latin American stocks rose with the DJ Americas up .55% led by Brazilian equities which rose another .95% in the week.

**Commodities & Currencies**

* Gold rose 68.10 to 1731.80 an ounce, up 4.09% for the week.
* The dollar lost ground against the Euro again as the Euro climbed to 1.3219.
* US Oil prices climbed 1.23 to $99.56 at the end of the week.

**Weekly Index Performance:**

DJIA: 12660.46 (-60.02 -.47%)

S&P 500: 1316.33 (+.95 .07%)

S&P MidCap:942.11 (+11.49 1.23%)

S&P Small Cap:444.83 (+6.15 1.40%)

NASDAQ Comp:2816.55 (+29.85 1.07%)

Russell 2000: 798.85 (+14.23 1.81%)

Euro Stoxx 600: 255.4 (-.18%)

Strong Sectors: Materials, Technology,Industrials

Weak Sectors: Telecommunications Consumer Goods, Oil &Gas

NYSE Advance/Decline: 2,251 / 905

NYSE New Highs/New Lows: 367 / 25

AAII Bulls/Bears: 48.4% / 18.9%

Have a great week!

Bob

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***From the Desk of Bob Centrella, CFA: JANUARY 23, 2012***

*"****Things are actually looking a bit better out there"***

Dear Friends,

There were two big sports headlines on Sunday. First, the New England Patriots versus the New York Football Giants will be the final two teams facing off in Super Bowl XLVI. Congrats to both teams, should be a great rematch. On a sad note, the man known to all as JoePa passed away at age 85 after battling lung cancer. As a longtime PSU fan and native Pennsylvanian, I will remember JoePa for the great things he did on and off the field while coaching Penn State instead of the sex-scandal from one of his ex-assistants that led to his dismissal as coach.

Last week’s holiday shortened week was a good one for equity markets around the world. Just like that, we are in the midst of a pretty solid stock rally as investors are getting more comfortable with news coming out of Europe and economic news here in the US. The US market is off to its best start to a new year in 15 years. Over in Europe, European finance ministers will gather today to try to hammer out a deal for Greek debt. Talks to cut Greece’s debt by about 100 billion Euros are crucial for Greece to avoid default when 14.4 billion euro in debt comes due in mid March. Creditors are being asked to swap existing debt for new and will be taking quite a haircut to do so (although it is better to get something rather than nothing). On the flip side, total Greece debt is still at a lofty 160% of GDP with a goal to bring it down to a more sustainable 120% by 2020.

On the corporate earnings front, it was mostly good news although there were some negative surprises. On the positive front, IBM and Microsoft helped the market gain on Friday by reporting solid earnings while Google was the big disappointment on the same day. Other companies delivering mostly good results included American Express, Intel, General Electric (mixed), BankAmerica (upside surprise but not out of the woods yet), and oil services company Schlumberger (good). This week will be among the busiest for corporate earnings and company outlooks. Strong earnings would give the market 3 good legs to stand on if a Euro dent deal can be worked out; earnings, US economy and Euro debt deal. All of the legs are a bit wobbly but certainly a major step in the right direction.

We will continue to monitor the 3 legs of the stool and hopefully they become sturdier as time moves on. It certainly seems like the risk of a US recession is off the table for now. We will have to deal with a European recession. The questions are how long and to what severity? So far over 50% of US companies reporting have beaten estimates, so that is good news too. The next 2 weeks will be critical on the earnings front.

**Corp Earnings Part 2**

Last week I went into some detail about what analysts and investors look for on the Income Statement (IS) when a company reports earnings. This week I’d just like to touch on a few important measures on the Balance Sheet (BS). I’m going to keep it simple since some of the ratios can get detailed and cumbersome. Needless to say, the BS is just as important to analysts as the IS. With any type of ratio analysis you should compare the ratios to other companies it competes against as well as its prior history. One key category on the asset side is Inventories. Analysts like to see inventories growing at or below the level of sales growth. If inventories are rising faster than sales, then that can become worrisome as the assumption is that the company is not able to sell its products. The inventory turnover is a key ratio to look at. It measures the efficiency of the business in managing and selling its inventory. You simply divide Annualized Net Sales by Inventories to get the # times inventory turns over. In general, the higher the number the better. Another category is to review is Accounts Receivables (A/R). Investors like to look at the number of days’ sales in A/R to see how long it takes to collect revenue after a sale has been made. The lower the better. Another measure is working capital (current assets – current liabilities). This is a measure of short-term liquidity. Does a company have to borrow to fund its growth or can it do it thru working capital. Long term debt as a percentage of equity or total capital is extremely important to review. Each company has an optimal level of leverage at which they can operate. Given the debt crisis we are seeing in countries let alone companies, clearly the level of debt is critical. This coupled with Return on Equity are important measures to guuge a company's use of capital. I can barely do justice to the amount of ongoing analysis that goes into reviewing a company’s operations but I hope I at least was able to give a top-level view of some of the key pieces of financial information the “Street” looks for when a company reports earnings.

The market is up so have a great rest of the week

. **Note: Financial Datasheet is attached**

\*\*\*With the new year here it is a great time for a portfolio consult. If you know anybody that would benefit from a fresh look at their investment allocation, please send them our way. [Click Here to Contact us for a Free "2nd Opinion" Portfolio Review and Investment Consult](http://forzainvestment.com/Contact_Us.html) \*\*\*

**Economy**

* Industrial production increased 0.4% in December, falling just short of the consensus expected gain of 0.5%. Including revisions to prior months, production increased 0.5% and is up 2.9% in the past year.
* Overall capacity utilization increased to 78.1% in December from 77.8% in November. Manufacturing capacity use rose to 75.9% in December from 75.3% in November
* The Producer Price Index (PPI) declined 0.1% in December, coming in below the consensus expected gain of 0.1%. Producer prices are up 4.5% versus a year ago. The decline in the PPI in December was due to food and energy, each dropping 0.8%. The “core” PPI, which excludes food and energy, increased 0.3%.
* The Consumer Price Index (CPI) was unchanged in December. The consensus expected an increase of 0.1%. The CPI is up 3.0% versus a year ago. The “core” CPI, which excludes food and energy, was up 0.1%, matching consensus expectations. Core prices are up 2.2% versus last year.
* Housing starts fell short of consensus expectations, but that was all due to multi-family units, which are extremely volatile from month to month. E
* Existing home sales increased 5.0% in December to an annual rate of 4.61 million units, below the consensus expected pace of 4.65 million units. Existing home sales are up 3.6% versus a year ago. The months’ supply of existing homes (how long it would take to sell the entire inventory at the current sales rate) fell to 6.2 in December from 7.2 last month
* New claims for unemployment insurance fell 50,000 last week to 352,000, the lowest since April 2008.

**Bond Market**

* With all the “risk on” trades taking place around the world, US Bonds had a tough week as the benchmark 10-year Treasury yield jumped to 2.03% from 1.86% last week. Decent US economic data and optimism about a Greek debt deal have helped raise the risk profile in the marketplace.
* The High Yield index saw its yield fall to 7.78% from 8% last week

**Stock Market**

* US Stocks continued their climb upward in the short trading week. The Dow Jones rose 298 points to 12720 or 2.4% while the S&P 500 climbed 2.04% to finish above the 1300 level at 1315.38. NASDAQ stocks shot up 2.8%.
* The Euro Stoxx 600 also continued its winning ways finishing a strong week up 2.68% led by German DAX (+4.25%), France CAC (+3.91%) and Italy (+4.14%).
* Asia stocks also had a nice week with the DJ Asia/Pac index rising 3.13% and it now stands 6& higher than year-end.

Latin American stocks joined the part with the DJ Americas up 2.33% led by Brazilian equities which rose 5.35% in the week.

**Commodities & Currencies**

* Gold rose to 1663.70 an ounce up 2.04% for the week.
* The dollar lost ground against the Euro as the Euro climbed to 1.293 or 2.01%.
* Oil prices dropped slightly to $98.46 for the week.

**Weekly Index Performance:**

DJIA: 12720 (+298 2.40%)

S&P 500: 1315 (+26.3 2.04%)

S&P MidCap:933.13 (+24.03 2.65%)

S&P Small Cap: 439.45 (+11.46 2.68%)

NASDAQ Comp:27793.35 (+76.03 2.80%)

Russell 2000: 785.88 (+20.42 2.67%)

Euro Stoxx 600: 255.85 (+2.68%)

Strong Sectors: Technology, Energy, Financials

Weak Sectors: Utilities, Staples, Telecom

AAII Bulls/Bears: 47.23% / 23.62%

Have a great week!

Bob

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***From the Desk of Bob Centrella, CFA: JANUARY 16, 2012***

***"What to Look For When a Company Reports Earnings"***

Dear Friends,

I hope you all had a nice ML King day and enjoyed the day off from work. I also hope you took a moment to reflect on what he meant to this country as he died too soon and was truly a remarkable man. Also, my congrats to those following the NFL playoffs who's teams remain alive. There were some exciting games this past weekend.

The past week in the markets was mixed but mostly positive. The US Market did rise a bit after falling on Friday as there were some rumblings of credit downgrades by S&P of Eurozone governments. It did happen after the market closed. Still the markets are shrugging it off and are up nicely this morning as I write this.

This week, US Corporations will begin delivering, in earnest, their 4th quarter and year-end earnings reports to investors and shareholders. To the average person, the reaction of a stock price to what is reported can often be puzzling. A company may report what appears to be on-target earnings only to see its stock price dive when trading opens. Having been a portfolio manager and analyst for 20 years, I still have to dig deep at times to understand a stock reaction that is contrary to what I was originally thinking. So I thought I’d give a quick primer on some of the most important things an analyst is looking for when a company reports. There are times too when the investment community doesn’t get it right and that opens up a great opportunity to purchase a good company at a discount. There are many more variables to look at but this ought to give you a top level view of some of the detail.

Today I’d like to look at the Income Statement (next week we’ll analyze the Balance Sheet). First, the most obvious headline is the actual reported EPS (earning per share) vs consensus expectations. But you really have to look at both reported EPS and adjusted EPS. It’s most often the adjusted number that gets the most attention. The adjusted number adjusts reported earnings for one-time or non-recurring events. Digging deeper into earnings is how you got there. Was there a lower tax rate, did the company buyback shares to lower the share count, was there lower or higher non-operating income, was there a restructuring charge, etc..? Company execs want to meet the consensus number and there are many times when it is accomplished through an accounting entry or two. Investors frown upon reported numbers that are "in-line" only because of some non-operating adjustments. In many industries the year-over-year comparison is crucial, especially if the company has a seasonal growth pattern. For some companies, such as growth companies, you also need to look at sequential growth to see if earnings are growing quarter to quarter.

The next most important item is revenues versus expectations. And within revenues is core growth (same store sales) versus acquisition growth. Core growth is viewed closely as this gives the best indication of how a company is currently selling its products or services as opposed to purchased growth. However, purchased growth is important to future revenue prospects. Like earnings, both the year-over-year and sequential growth comparisons must be reviewed. Revenues are then reviewed by product (and/or service) line to get a more complete picture of how each area is performing.

Beyond the headline earnings and sales numbers is really where the analyst community delves to get the true operating performance of a company. This can get very detailed but probably the 2 most important items that are focused on are Gross Profit Margin (GPM) and Operating Profit Margin (OM). Companies generally give margin goals when they provide guidance and investors want to see progress in reaching margin goals. (Check-out [www.investopedia.com](http://www.investopedia.com/) for definitions if needed). In a nutshell, declining margins – bad! There may be a good reason for declining margins but most troubling are inflating costs or declining revenues due to slower sales or lower average selling prices. Mature companies have stable margins while growth companies or restructuring companies should show rising margins. The OM is a measure of the company’s operations during the period and measures its ability to cover costs and make a profit as well as its efficiency in doing so. Operating profit is measured before deductions for interest and taxes. When looking at the operating margin, you can review the different expense categories to see why a company’s margin has risen or declined. Analysts often look favorably on increases in some areas like R&D expense or marketing expense as it may produce a future benefit. You can compare a company’s margins to its prior periods as well as other leading companies within its industry.

Finally, the company outlook with regard to sales, earnings, and margins is probably the most anticipated announcement and the most important piece of information that analysts and investors are looking for when a company gives its guidance. How is the current business trending and what do you see for next quarter and beyond? Many times a company can report a great quarter only to lower expectations for the future. Anytime a company has to take down EPS or sales estimates, it is obviously a major red flag. Then you must determine if it is a temporary blip or something more permanent that will take a while to correct.

I can go into much greater detail but at the risk of boring you to death I’ll stop there for the income statement. I hope this little primer gives you a top-level view of analyzing a company’s earnings report. There is so much more detail and analysis that can be done but if you know the basics then you can at least follow how your favorite companies are doing. As a retail investor one should at least be aware of the most common financial items that are scrutinized on the income statement to help you make an investment decision.

Next week we’ll tour the Balance Sheet and look at some of the more important ratios and items on which analysts focus.

\*\*\*With the new year here it is a great time for a portfolio consult. If you know anybody that would benefit from a fresh look at their investment allocation, please send them our way. Click Here to Contact us for a Free "2nd Opinion" Portfolio Review and Investment Consult \*\*\*

**Economy**

* Retail sales grew 0.1% in December (0.3% including upward revisions to October/November). The consensus expected an increase of 0.3%. Retail sales are up 6.5% versus a year ago. Sales excluding autos fell 0.2% in December for the first time in 19 months.
* Initial claims for unemployment insurance increased 24,000 last week to 399,000. The four-week average is 382,000, which is much closer to the underlying trend.
* The trade deficit in goods and services increased to $47.8 billion in November, higher than the consensus expected deficit of $45.0 billion. In 2012, the trade deficit is likely to be caught between two powerful opposing forces. First, economic growth should accelerate, putting upward pressure on the trade gap. But, second, the massive depreciation of the US dollar over the past decade should continue to make the US an attractive place from which to export.
* Exports declined $1.5 billion in November, led by gold. Imports increased $2.9 billion, led by oil and other petroleum products. The rise in petroleum imports was due to both higher volume and higher prices

**Bond Market**

* The 10-yr UST yield fell to 1.853% compared to 1.961% a week ago.

**Stock Market**

* Stocks finished the week in the black with the DJIA rising 62 points or .5%, the S&P 500 up .88% and the Nasdaq rising 1.36%.
* International equities were also higher with the Euro Stoxx 600 up .78% led by Italy which rose 1.4%.
* Asian stocks did not join the party as the DJ Asia-Pac index fell .93%.

**Commodities & Currencies**

* Gold rose to 1630.40 from 1616.1
* The Dollar gained on the Euro to 126.77 from 127.19.
* Crude oil dropped to 98.70 from 101

**Weekly Index Performance:**

DJIA: 12422 (+62.14 .50%)

S&P 500: 1289.09 (+11.28 .88%)

S&P MidCap: 906.59 (+15.10 1.69%)

S&P Small Cap: 427.22 (+7.04 1.68%)

NASDAQ Comp: 2710.67 (+36.45 1.36%)

Russell 2000: 764.2 (+14.49 1.93%)

Euro Stoxx 600: 251.12 (+.78%)

AAII Bulls/Bears: 49.14% : 17.8

**Have a great week!

Bob**

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***From the Desk of Bob Centrella, CFA: JANUARY 9, 2012***

***"Not a Bad First Week"***

Dear Friends,

First, I sit here still stunned as I mourn the loss by the Steelers last night after they got Tebowed by the Broncos. I at least still have a horse in the race as the NY Giants took care of business and head to Green Bay next week. Good luck to the rest of you who care about the NFL playoffs.

The fist week of 2012 got off to a good start for the US market as stocks rose, albeit on light volume. US Stocks continue to act better as the news out of Europe remains quiet and the market has been showing signs of de-coupling from European news. However, I still have the feeling that we are one Euro negative news announcement from a big down day. Until the market can absorb that news blow and shrug it off, we remain hostage to Euro news. The S&P 500 rose 1.6%, the DJIA climbed 1.2% and the Nasdaq gained 2.7% for the week. Most of the gain came on the year's first trading session.

Economic data was encouraging as the ISM manufacturing index has now grown for over 2 years. Employment data appears on the surface to be getting better with the 4-week average of initial claims at 373k, the lowest since June 2008. The unemployment rate fell to 8.5%. So what is wrong with this picture? The one fly in the ointment is that the workforce is shrinking as 7% of the work pool has abandoned the labor force because they gave up looking for a job.

So what needs to happen for our economy to really gain traction. 3 words -- housing, housing, and housing. The housing market comeback remains lethargic and until we get strength in housing the economy will not pickup steam. Hand in hand with housing goes a turnaround in financial stocks. For this market to move steadily higher, financial stocks need to take a leadership role. Unfortunately, there are still too many uncertainties for that to happen on a sustained basis.

So, I suggest you continue to look for opportunities to buy your favorite companies on pullbacks. Be patient, this market is not likely to run away from us. Earnings season starts in earnest this week, so let's see what the initial reports look like. Since a lot of higher-yielding large cap stocks did well last year, I see some bargains among mid-cap stocks. Look for market leaders with strong management teams. There are a lot of good companies out there with market caps in the $2 billion to $10 billion range that offer good growth opportunities. If investors get more confident and take on more risk, mid-caps will be the beneficiary of this move. Conversely, mid- and small-caps will do worse if investors get risk-averse. So be careful out there!

Coming out later today I hope to have the results of the first Forza Investment Survey. Thank all of you for participating. We got a great response.

Have a great week.

**\*\*\*With the new year here it is a great time for a portfolio consult. If you know anybody that would benefit from a fresh look at their investment allocation, please send them our way.** **Click Here to Contact us for a Free "2nd Opinion" Portfolio Review and Investment Consult \*\*\***

**Economy**

* The ISM manufacturing index increased to 53.9 in December from 52.7 in November, beating the consensus expected gain to 53.5. December data was stronger than expected and the manufacturing sector has now grown for 29 straight months. And just in case you still think a double-dip is possible, the new orders index came in at a very strong 57.6 in December.
* The ISM non-manufacturing composite index increased to 52.6 in December, coming in slightly below the consensus expected gain to 53.0. The new orders index rose to 53.2 from 53.0.
* The ADP Employment index, a measure of private payrolls, increased an eye-popping 325,000 in December, easily beating consensus expectations and the highest reading on record, which dates back to 2000. Initial claims for unemployment insurance declined 15,000 last week to 372,000. The four-week average is now 373,000, the lowest since June 2008.
* Non-farm payrolls increased 200,000 in December and were up 192,000 including revisions to October/November. The consensus expected a gain of 155,000. The unemployment rate dropped to 8.5% from 8.7% in November, the lowest since March 2009.

**Bond Market**

* The 10-yr UST yield climbed to 1.96% from 1.88% at year-end as investors put the risk-on trade back. However, Europe’s continuing debt woes kept the yield below 2%. The 2-year note is now yielding only .259%.
* The ML High Yield 100 yield was at 7.08% vs 7.18% at year-end.
* Muni prices continued to rise as the year began as investors continued to buy the bonds.
* In Europe, the ECB continued its emergency buying of Spanish and Italian debt yet Italy’s long-term borrowing costs remain stubbornly at around 7%.

**Stock Market**

* Stocks rose for the first 4 days of the year with the S&P 500 climbing 1.61% to 1277.81 and the DJIA rising 1.17% to 12359.9.
* Utility stocks, the safe bets and top performer of last year declined as evidenced by a 2.9% drop in the Dow Utility average. Investors piled into utilities last year as the ultimate safety play due to high yields compared to bonds.
* Europe stocks were mixed. The German Dax rose 2.71% and the Stoxx 600 index climbed 1.22%. Italy saw its market drop 2.94% while the Spanish market dropped 3.24%.
* In Asia, stocks rose except in China (-1.64%) and Japan (-.77%) to start the year. The DI Asia/Pac index rose .54%. .

**Commodities & Currencies**

* Gold rose to 1616.1 from 1565.80
* The Dollar gained on the Euro to 127.19 from 1.296 at year-end as the debt crisis continued to take a toll on the currency. This is a 16-month low for the Euro.
* Crude oil rose to 101.56 from 98.83 at YEGold rose $61.50 to $1,747/oz. Gold selling seems to have ebbed now that risk assets are being bought.

**.**

**Weekly Index Performance:**

DJIA: 12360 (+142.36, 1.17%)

S&P 500: 1277.8 (+20.21 1.61%)

S&P MidCap: 891.49 (12.33 1.40%)

S&P Small Cap: 420.18 (+5.11 1.23%)

NASDAQ Comp: 2674.22 (69.07 2.65%)

Russell 2000: 749.71 (+8.79 1.19%)

Euro Stoxx 600 247.53 (+1.22%)

Strong Sectors: Basic Materials, Technology, Financials

Weak Sectors: Telecom, Consumer Goods, Utilities

NYSE Advance/Decline: 2213 / 947

NYSE New Highs/New Lows: 305 / 27

AAII Bulls/Bears: 49% : 17%

**Have a great week!**

**Bob**

**Bob Centrella, CFA
Managing Partner
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**\*\*\* Know someone who would like to receive a copy of my weekly newsletter? Please have them send me their email address.\*\*\***

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