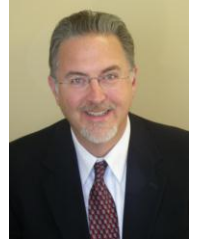


MATRIX

WEALTH MANAGEMENT

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Over the holidays I was discussing with my wife the incredible rise and fall of the income levels that many of our friends who are home builders and developers have experienced over the last several years. I made the comment that 80% of that success and resulting failure probably had more to do with just riding the housing market boom rather than any particular business savvy or special insight. The unfortunate mistake many of these folks made, of course, is that they did not know when to get out.

It reminded me of why we do economic and capital market forecasting. In any economic boom just being in the right sector could be responsible for as much as 80% of your returns. (There is a lot of academic stock market research that points to this very conclusion). Likewise, if you don't recognize when the tide is going out, then you may find yourself losing everything that you've gained.

Our goal in attempting to forecast the economy and the capital markets is not to try to divine the future, (good luck with that one), but to identify the sectors of the capital markets that should benefit from a favorable or unfavorable macro trend.

The Economy

It was and remains our view for 2012 that as a result of fiscal malfeasance of successive U.S. Administrations and Congresses has pushed the federal government into effective long-term insolvency. According to GAAP based accounting principles, current total federal obligations exceed \$76 trillion – more than five times U.S. GDP. Taxes cannot be raised enough to bring the deficit into balance, and the political will in Washington seems to be lacking to cut government spending severely, particularly in terms of the necessary slashing of unfunded liabilities in government and social programs, such as Social Security and Medicare. This type of spending will slow real economic activity as the government siphons money away from the private sector to support the government and its policies.

While we continue to believe that sooner or later investors will wake up to the fact that in many ways the fiscal situation in the U.S. is a bigger house of cards than anywhere else in the world, so far this has not happened. We think that the main reason for this is that our government has demonstrated a

willingness to print as much fiat currency as necessary to temporarily bail out not only our own reckless behavior, but also the equally reckless behavior in other countries in the world, including the EU!

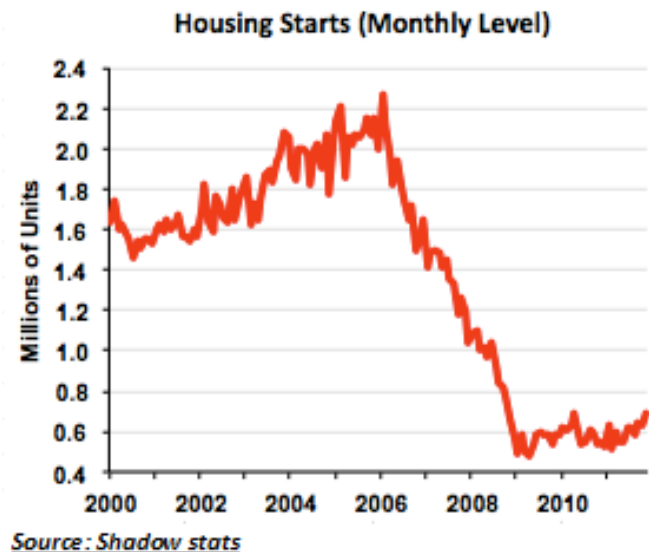
The Dollar

While the dollar has strengthened in relative terms to the Euro and other currencies, it is illusionary to assume that the dollar has actually strengthened in real terms, as many want you to believe. A currency that is improving in real terms represents an economy that is also improving. The dollar is, in fact, losing purchasing power as inflation driven by dollar weakness turn profits from the U.S. capital markets into real (inflation-adjusted) losses. In real terms, the dollar is still down over 30% over the last decade as measured by the generous U.S. Dollar Index. Gold, by contrast, is up over 350% in that same period.

Housing

While we do not claim to be experts in the housing market, because so much of our economy depends on the overall health of this sector, it's important to try to understand where we are in this cycle.

Inventory of existing homes in November declined 5.8% to 2,580,000 units from 2,740,000 units in the previous month. The number of existing homes for sale is also 18.1% lower than it was compared to this time last year. Existing home inventory has declined for five consecutive months and in six out of the last seven months. This is the lowest level of existing home inventory on the market since May 2005.



According to Hanley Wood Market Intelligence

While we were very bearish on the housing market in 2011, we are marginally less so for 2012. While it is too early in our opinion to declare a bull market in housing, we may have put in a bottom.

While mortgage rates trade at historic lows, it has become very difficult for potential homeowners to qualify for loans and for existing homeowners to qualify for refinancing. We have been long-term advocates of lowering interest rates regardless of loan to equity values on all existing mortgages, as well as for new buyers that qualify to whatever the current market rate is. In our opinion, this would immediately supercharge the housing market and the economy as it would allow homeowners to reset their market values and free up much needed cash. This cash could help to recapitalize the personal balance sheets of the homeowners and stimulate investment and savings. Of course, the banks would lose, as they would have to write off the difference on the loan values. Personally I don't see this as a much bigger problem than they already have as they are going to be forced to write off much of these

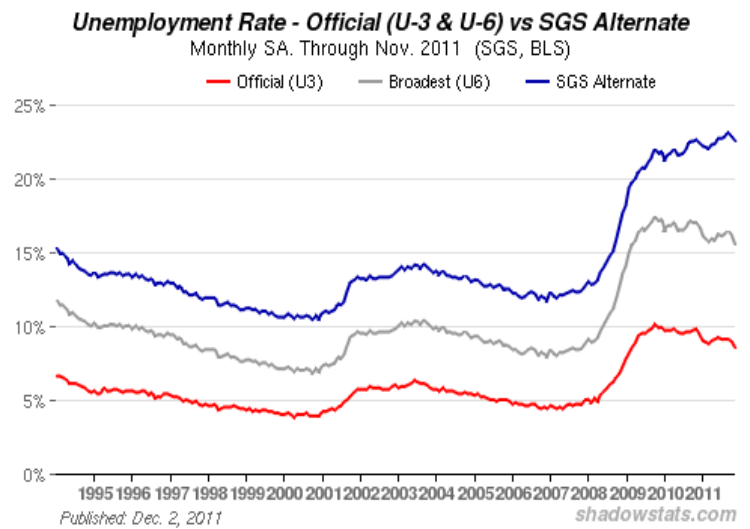
balances anyway as a result of foreclosures, short sales, and people simply walking away should the housing market continue to be problematic.

My point here is that I am starting to read about some proposals along these lines. Bill Gross, the guy who runs the world's biggest bond fund, proposed much the same thing to Congress in 2011. He was laughed out of town. However, if by some miracle we were to get a program like this in 2012, we believe that the U.S. economic activity would immediately benefit. Sorry banks...but you've already been handed your bailout and from the very people that you are foreclosing on.

Jobs

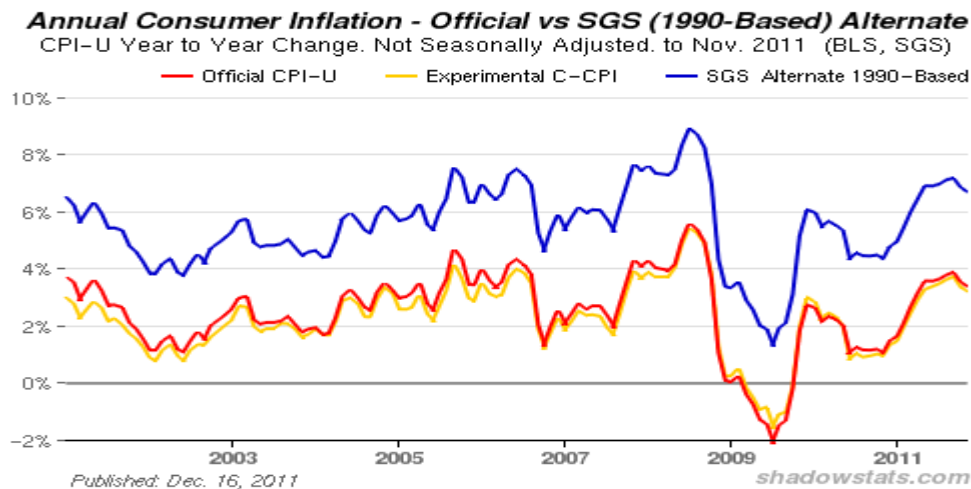
This chart reflects the seasonally – adjusted current (SGS) unemployment reporting methodology adjusted for estimated long term discouraged work

In 2011 we were expecting real unemployment to be about 17%. It looks like we were low as the number has come in around 22%. For 2012 we expect this number to improve somewhat as the economy is showing some very early and weak stages of activity. Our somewhat upbeat forecast for jobs comes from what we believe will be a slow but continued improvement in the housing sector of the economy.



Inflation

The government wants you to believe that inflation is running along at about 4%. We were expecting inflation in 2011 to be north of 10%. A quick look at the chart below shows that inflation calculated the way it was before the government changed the calculation to be about 7% or so.



Europe

The factor that has been in play the past few months has been the European debt crisis going critical. I have said all along that the U.S. is in worse shape than the EU overall because the EU has less will and capacity to resolve – or even temporarily paper over – its problems. Meanwhile, Ben Bernanke's Federal Reserve has engaged in a covert bailout of Europe through the use of currency swaps. From a currency perspective, this goes to show how deluded dollar investors really are – they're buying into a currency that is being printed for any and all comers. This news should have caused the dollar to tank and interest rates to rise, but again, the fear trade is overriding all other considerations.

We believe that 2012 will bring more trouble from Europe, and therefore, more potential dollar buying. This year we might even see some members exit the EU. We believe that in the long run that the Eurozone will be stronger without its weaker members.

We were very hopeful that the Germans in Europe would prevail in fighting against those that wanted to follow the path here in the U.S. and try to print your way out of the mess we are in. Who would have thought that our policy makers would have concluded that more debt was the way to get out of debt! But it seems that even the Germans are beginning to cave in to the political considerations.

If The EU does decide to turn up the printing presses, it is not outside the realm of possibilities that we could see a 30-year treasury below 2%!

Our Portfolios

Let's look at what went right and what went wrong in 2011.

Our focus on high quality dividend stocks has been a big winner. Returns have been strong across each of our holdings. Many of these stocks have also seen increases in their dividend payouts in 2011. This sector of our portfolio has benefited from what we believe will be a continued demographic shift in investor preference – one that would drive individuals and institutions toward investments that could deliver both yield and growth. Our focus has been on companies that don't necessarily have a high dividend yield but a stable dividend and growing yield with a solid underlying growth story.



Furthermore, we believe that investors will continue to be punished by the FED with low rates for investing in savings accounts and other similarly low yielding investments with the purpose in mind of driving more capital into the stock market and other more risky asset classes. This should result in continued robust demand for high quality dividend yielding stocks.

We were very bullish on gold in 2011 and remain so for 2012. Gold was up about 9.57% for the year. This is a solid performance for the metal, especially compared to the S&P 500, which was flat. While we have been more concerned about the downside volatility of the metal and as a result have taken some profits off the table in 2011, we still see gold as an alternative currency and not a speculative trade. Until such time as we see Central Banks begin to adopt policies that strengthen their respective currencies rather than devalue those currencies, we will continue to own gold and look for any attractive entry points to add to our positions.

We are very bullish on producing assets in 2012. On the margin, we feel better about what we saw in the public non-traded REIT sector in 2011. While missing out on adding these investments sooner that we would have liked, our investments in multi-family housing, grocery anchored shopping centers, big box retailers, and timber have delivered above average yield while helping to lower overall portfolio volatility. Looking forward to 2012, we see further opportunities in this space.

Our investments in the corporate bond market have also done better than our expectations. We have seen the face value of many of our bonds go up anywhere from 5-15% in 2011, excluding the coupon. The problem in 2012 is that this increase in price and the resulting lower yields as made new purchases less attractive. The problem now becomes replacing bonds that have been called or have matured with lower yielding securities. The other problem is that since we purchased most of our bonds, the bond market has heated up tremendously as investors shift their emphasis away from a return on their capital to a return of their capital.

We expect to continue to make purchases in the bond market but with a lowered total return expectation in 2012. We believe that the benefit of keeping the bond portion of our investors' portfolios short in duration will be rewarded when higher interest rates come.

Our investment in the CME Group, the company that operates regulatory exchanges on a worldwide basis, proved to be a big disappointment. As many of you are aware, the seventh largest bankruptcy in history occurred in 2011 when MF Global closed its doors. While not affiliated with MF Global, the CME Group was the major exchange where MF Global did its business. In retrospect, the CME group did some things right and some things wrong. However, because of the uncertainty surrounding this unprecedented event, we made the decision to sell our shares, unfortunately at a loss. This trade was especially disappointing for us because the CME Group handles most of the trades in the commodity, futures, and options markets. These markets are all heating up as investors look to diversify their holdings and better manage risk. Because these markets should continue to grow, we will be looking to purchasing this stock back at some time in the future when we feel the issues around MF Global are resolved.

The biggest disappointment of the year for us was our short in 20 year U.S. Treasuries. Because this position comprised almost 20% of the assets we managed, the poor results from this one investment almost completely offset all of our winners, making for a slightly higher rate of return for the portfolios than the S&P 500 net off all expenses and fees.

However, while being very disappointed in our timing with this investment, we remain more committed than ever to the investment thesis. In our view, long-term interest rates will go back up and when they do, the face value of bonds will go down. While the FED controls the short end of the yield curve, investors control the long end. As we have said, at some point investors will realize that investing money for 20 years with the U.S. Government for somewhere around 2% - with the government's own inflation projection running somewhere around 4% is a bad investment!

It has been very frustrating for us to experience the kind of fiscal and monetary insanity that we have seen over the last two years. While we cannot guarantee anything, it seems very likely that at some point, the mother of all bubbles in the bond market will pop and when it does, our short should pay off very handsomely.

While we believe that we will be right and make money on this call, the fallout from what might be a very violent pullback in the bond market worries us. Our worries are not so much for our investors (as we believe that we are well positioned for this), but for the country and for the global economy.

Summary

Stocks

We expect the stock market in 2012 to continue to be volatile, but at the end of the year to look better than it did in 2011. This scenario is not all that bad for long term investors as volatility can present opportunities for investors who are prepared for it. Our forward looking expectations for the market as measure by the S&P 500 in 2012 should produce a total return of between 2% - 4%. We expect that the stock portion of our portfolio, including dividends, should outperform the S&P 500 and with less risk (as measured by portfolio volatility).

The primary risks to our stock market forecast in 2012 would be a potential credit/currency crisis in Europe and the resulting counterparty risk to U.S. financial institutions and the resulting domino effect.

Precious Metals

We continue to like the precious metals and basic material space. We will be looking for opportunities to increase our position in gold and silver, providing that we continue to see the monetization of both US and European debt. Once we see the beginnings of a reversal in these policies, we hope to be long gone from these investments.

Bonds

We like high quality 3-5 year corporate bonds in 2012 but less so (comparing the market from 2011) from a total return expectation. We see some room for upside appreciation relative to the fear trade that we have already discussed, but little other reason to invest in this space expect as a money market alternative for cash.

We also like Treasury Inflation Protective Securities as these bonds will afford some protection to the increase in inflation that we see in 2012.

With short-term bonds affording little investment appeal and the mother of all bubbles on the verge of exploding, we are very bearish on the bond market. Quite frankly, we hope that it will be 2012. Not only will a selloff in the bond market benefit our investors tremendously, it will also be the beginning of the end of the thinking that you can use more debt to get out of debt. If we do start to see higher rates in 2012 it will probably be after the Presidential election. Until then we expect the politicians to try to keep as much bad economic news out of the headlines as possible, each party thinking that they will be able to capitalize.

Emerging Markets

We believe that the emerging markets in 2012 will be a period of transition for these economies. While we believe these countries will be the growth engines of the future, short term we believe that there will be some serious soul-searching as these big exporters reevaluate their relationships with their customers like the U.S. and Europe as well as their own internal fiscal and monetary policies.

We prefer to be buyers of emerging market debt like corporates and sovereigns vs. equities that will help us to diversify away some of the portfolios risk relative to the dollar.

Real Estate

We feel that portfolios should be overweight producing assets in 2012. With forecasted one-year returns from stocks and bonds to be on the low side relative to the risk, we feel that investors should be overweight assets that pay an attractive income stream that can be reinvested or taken as cash and compounded in a money market fund or some other type of cash alternative. The two asset classes that we recommend strongly are dividend producing stocks and real estate.

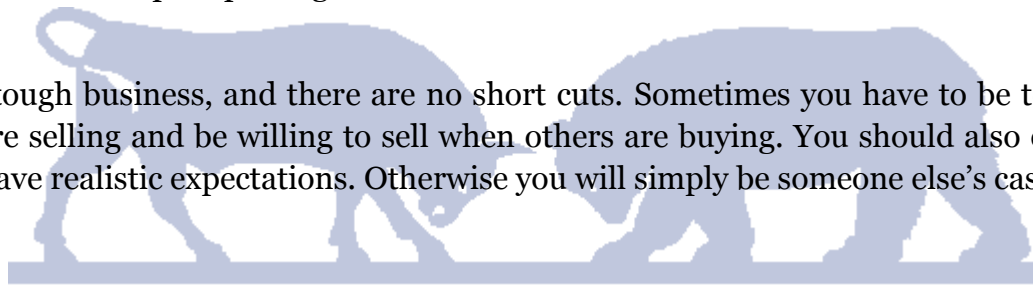
In 2011 to accomplish this goal, we recommended several **public non-traded real estate investment trusts** as the best vehicle for this purpose. So far, we have been very happy with our investments in multi-family housing, big box retailers, grocery anchored, and downtown office buildings and expect these investments to continue to do well in 2012. It's clear to us that many other investors feel the same way and have been allocating more money to this space. Looking at how far cap rates have moved in the last year or so from around 8 to a 7 in a relatively short period of time, this tells us that not only are individual investors moving aggressively into this space, but so are the institutional investors. While many of these properties are not the bargains they were a year or two ago, we still see solid value available for investment.

To help our clients that might want to own real estate directly like a rental house, or some commercial property, and would like to use IRA money for this purpose, we have arranged for a well-qualified trust company to act as your custodian.

We feel this could be a great opportunity for investors who hold most of their investable assets in self-directed IRAs and would like to expand their investment options and/or diversify away from the usual stock, bond, and mutual funds that you may have been stuck with.

As a society (and as investors), we are consistently bamboozled by appearance and consensus thinking. Too often, we are played as suckers as we just accept the trend, momentum and/or the superficial as certain truth without a shred of skepticism. Just look at those who bought into the success of Enron, Saddam Hussein's weapons of mass destruction, the financial supermarket concept at Citibank, the uninterrupted profit growth of the real estate market and the clean cut image of Tiger Woods.

Investing is a tough business, and there are no short cuts. Sometimes you have to be tough and buy when others are selling and be willing to sell when others are buying. You should also exercise some patience and have realistic expectations. Otherwise you will simply be someone else's cash flow.



As always, we appreciate the confidence and trust from our clients.

Michael K. Chrysler
Managing Partner - Matrix Wealth Management
mchrysler@matrixwealthmanagement.com

Michael K. Chrysler is a managing partner at Matrix Wealth Management, with accounts held at Raymond James & Associates, Inc., member New York Stock Exchange/SIPC and Fidelity Investments, Member NYSE, SIPC. All expressions of opinion reflect the judgment solely of Michael K. Chrysler as of this date. Information herein has been obtained from sources considered reliable, but not guaranteed to be accurate or complete. Planning Resources, its affiliates, officers, or directors may in the normal course of business have a position in any securities mentioned in this report. Securities & Investment advice offered through fsic, member FINRA/SIPC.