



*January 23, 2012*

Dear Client,

We hope your Holiday season was relaxing and enjoyable.

**2011-Year in Review**

Boy, was 2011 a year of contrasts –high volatility ruled. Some days stocks were up 3-4% or down 4- 5%, yet when the year was over the market was essentially unchanged. Not a good combination unless you can profit from that (our clients do through VIX related holdings in the Barclays ETN—XVZ; Dynamic VIX). Here are the final results for **domestic stocks**:

	<b>2011</b>	<b>Value</b>	<b>Blend</b>	<b>Growth</b>
<b>Large</b>		<b>.4%</b>	<b>2.1%</b>	<b>2.6%</b>
<b>Mid Cap</b>		<b>-1.4%</b>	<b>-1.5%</b>	<b>-1.7%</b>
<b>Small</b>		<b>-5.5%</b>	<b>-4.2%</b>	<b>-2.9%</b>

While US stocks pretty much ended up where they started, European stocks had a poor year, also marked by high volatility, stemming from the uncertainty about excessive debt in Italy and Greece (among other countries). The EAFE index recorded a return of -11.7% (in US dollars); diversified portfolios most likely fared worse than if they had held US stocks alone this past year. However, over the last 10 years, foreign stocks and bonds outperformed US stocks and bonds. A hypothetical asset allocation with the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EMI, 30% in the Barclays Capital Aggregate, 5% in the CS/Tremont Equity Market Neutral Index, 5% in the DJ UBS Commodity Index and 5% in the NAREIT Equity REIT index, would have

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had a return of -.2% in 2011. Despite the poor one year return for portfolios that are diversified by asset class, in the long run, these portfolios will outperform ones that include only 2-3 asset classes. Evidence of this may be seen in the table below which illustrates the return on a variety of asset classes from 2001 through 2011. The diversified portfolio (Asset Alloc.) outperformed nearly every asset class except

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	4Q11	10-ys '02-'11
REITs	13.9%	DJ UBS Cmnty 23.9%	MSCI EME 56.3%	REITs 31.6%	MSCI EME 34.5%	REITs 35.1%	MSCI EME 39.8%	Barclays Agg 5.2%	MSCI EME 79.0%	REITs 28.0%	REITs 8.3%	Russell 2000 15.5%	MSCI EME 277.2%
Market Neutral	9.3%	Barclays Agg 10.3%	Russell 2000 47.3%	MSCI EME 26.0%	DJ UBS Cmnty 17.6%	MSCI EME 32.6%	MSCI EAFE 11.6%	Market Neutral 1.1%*	MSCI EAFE 32.5%	Russell 2000 26.9%	Barclays Agg 7.8%	REITs 15.3%	REITs 164.2%
Barclays Agg	8.4%	Market Neutral 7.4%	MSCI EAFE 39.2%	MSCI EAFE 20.7%	MSCI EAFE 14.0%	MSCI EAFE 26.9%	DJ UBS Cmnty 11.1%	Asset Alloc. 23.8%	REITs 28.0%	MSCI EME 19.2%	Market Neutral 5.0%	S&P 500 11.8%	Barclays Agg 75.4%
Russell 2000	2.5%	REITs 3.8%	REITs 37.1%	Russell 2000 18.3%	REITs 12.2%	Russell 2000 18.4%	Market Neutral 9.3%	Russell 2000 -33.8%	Russell 2000 27.2%	DJ UBS Cmnty 16.7%	S&P 500 2.1%	Asset Alloc. 6.5%	Asset Alloc. 73.5%
MSCI EME	-2.4%	Asset Alloc. -5.4%	S&P 500 28.7%	Asset Alloc. 12.5%	Asset Alloc. 8.0%	S&P 500 15.8%	Asset Alloc. 7.3%	DJ UBS Cmnty -36.6%	S&P 500 26.5%	S&P 500 15.1%	Asset Alloc. -0.2%	MSCI EME 4.5%	Russell 2000 72.8%
Asset Alloc.	-3.4%	MSCI EME -6.0%	Asset Alloc. 25.2%	S&P 500 10.9%	Market Neutral 6.1%	Asset Alloc. 14.9%	Barclays Agg 7.0%	S&P 500 -37.0%	Asset Alloc. 22.5%	Asset Alloc. 12.7%	Russell 2000 -4.2%	MSCI EAFE 3.4%	Market Neutral 72.7%
S&P 500	-11.9%	MSCI EAFE -15.7%	DJ UBS Cmnty 22.7%	DJ UBS Cmnty 7.6%	S&P 500 4.9%	Market Neutral 11.2%	S&P 500 5.5%	REITs -37.7%	DJ UBS Cmnty 18.7%	MSCI EAFE 8.2%	MSCI EAFE -11.7%	Market Neutral 2.9%	MSCI EAFE 64.8%
MSCI EAFE	-21.2%	Russell 2000 -20.5%	Market Neutral 7.1%	Market Neutral 6.5%	Russell 2000 4.6%	Barclays Agg 4.3%	Russell 2000 -1.6%	MSCI EAFE -43.1%	Barclays Agg 5.9%	Barclays Agg 6.5%	DJ UBS Cmnty -3.4%	Barclays Agg 1.1%	DJ UBS Cmnty 58.0%
DJ UBS Cmnty	-22.3%	S&P 500 -22.1%	Barclays Agg 4.1%	Barclays Agg 4.3%	Barclays Agg 2.4%	DJ UBS Cmnty -2.7%	REITs -15.7%	MSCI EME -53.2%	Market Neutral 4.1%	Market Neutral -2.5%	MSCI EME -18.2%	DJ UBS Cmnty 0.3%	S&P 500 33.4%

Asset Class

Source: Russell, MSCI, Dow Jones, Standard and Poor's, Credit Suisse, Barclays Capital, NAREIT, FactSet, J.P. Morgan Asset Management. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EMI, 30% in the Barclays Capital Aggregate, 5% in the CS/Tremont Equity Market Neutral Index, 5% in the DJ UBS Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. All data except commodities represent total return for stated period. Past performance is not indicative of future returns. Data are as of 12/31/11, except for the CS/Tremont Equity Market Neutral Index, which reflects data through 11/30/11. "10-ys" returns represent cumulative total return and are not annualized. These returns reflect the period from 1/1/02 - 12/31/11. Please see disclosure page at end for index definitions. \*Market Neutral returns include estimates found in disclosures. Data are as of 12/31/11.

for Emerging markets, REIT's and The Barclays Bond Aggregate.

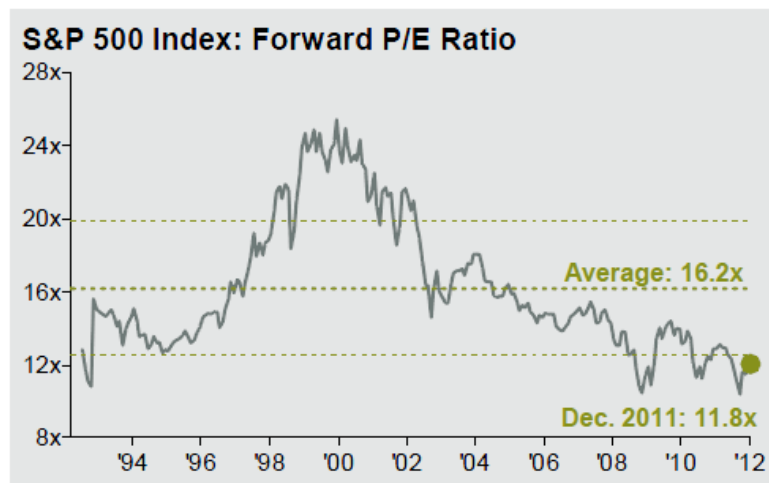
Contingent rebalancing using valuation rules could have further enhanced the returns for the diversified strategy which includes only annual rebalancing. The lesson to be learned is that sometimes a diversified portfolio will underperform a specific asset class (in this case the S&P 500 for 2011), but in the long run, diversification works. Here are the final results for 2011 for several asset classes you hold (index data):

Asset Category	Total Return 2011 %
Morningstar Category: Foreign Small/Mid Value	-15.99
Morningstar Category: Long/Short Equity	-2.82
Non-US Bonds	5.17
DJ UBS Commodity TR	-13.32

DJ US Select REIT TR	9.37
DJ US Total Full Cap TR	0.52
Goldman Sachs Natural Resources	-7.35
Convertible Bonds	-3.76
MSCI EAFE NR USD	-12.14
MSCI World/Real Estate	-7.12
NASDAQ Composite	-1.80
Russell Mid Cap	-1.55
Russell Mid Cap Growth TR	-1.65
Russell Mid Cap Value TR	-1.38
S&P 500 TR	2.11
S&P SmallCap 600/Citi Value	-1.38

### ***What Does the Future Hold for Domestic Stocks?***

Large company stocks in the United States were one of the worst performing asset classes from 2000 to 2011. The past decade was one of the worst for US stocks since the 1930's, yet, current valuations might suggest much better returns in the future. As you can see from the chart below, the current valuation for the S&P 500 is low, with the price to earnings ratio as low as it was in 1995. Large Cap stocks are particularly cheap-- their price-to-earnings ratio is 26% below the 20 year average.

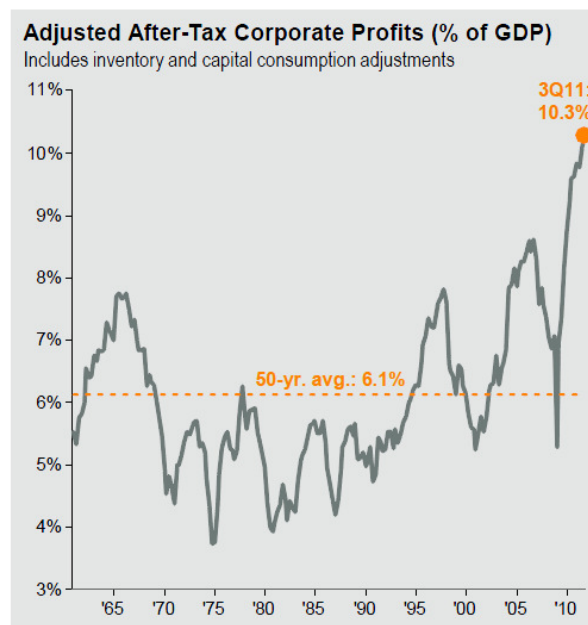


**Current P/E as % of 20-year avg. P/E**  
*E.g.: Large Cap Blend stocks are 26.6% cheaper than their historical average.*

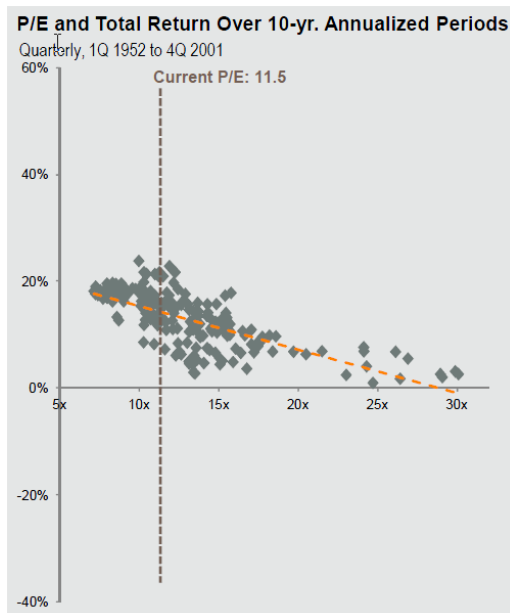
	Value	Blend	Growth
Large	78.3%	73.4%	65.7%
Mid	88.0%	85.0%	71.7%
Small	91.3%	85.6%	76.8%

With this in mind, the question becomes, what has happened historically when stock valuations are at this level? The second chart below shows the average 10-year annualized returns after the P/E ratio is at its present level:

Returns for stocks average from about 6-7% annualized to as high as 21%. Of course there are always caveats, in particular, there is always the possibility that corporate profits can drop dramatically, increasing price to earnings ratios to the point where stock returns will still be low. We don't believe that will happen, but the following chart is sobering:



Source: BEA, FactSet, J.P. Morgan Asset Management.



As you see corporate profits as a % of GDP are at an all-time high. In fact, they are 60% higher than the 50-year average of 6.1%. This chart may suggest that profit growth could begin to flatten. That would result in price to earnings ratios that stagnate at current levels. Thus, any change in P/E ratios would come from a change in stock prices. Over-the long term ,corporate profits are the primary driver behind market returns. Changes in price to earnings ratios are like a rubber band; it can be stretched temporarily, but eventually, it always wants to return to its original length. On the other hand, the opposite could happen: earnings continue to grow, but stock prices stagnate or decline. We have seen this happen in the past. Those of you with long memories might recall that the average price to earnings ratio for stocks was around 6 in the late 1970's. Granted, economic conditions were a bit different with other factors at work in those days, including high inflation and interest rates neither of which are factors now.

***How About International Stock and Other Asset Classes?***

We think that valuations are reasonable for international stocks, but with the Euro declining and continuing uncertainty, returns may be poor for the next couple of years. You'll read more on this and other asset classes in future Stonegate newsletters.

***Stonegate In the News***

- 1.) October, 2011 - Kim was quoted in Women's Health Magazine in an article entitled "Your plan to retiring in style" by Lauren Greene.

**Quote:** "The IRA contribution limit for 2010 is \$5,000, says Kim Viscuso, a financial planner at Stonegate Wealth Management. She strongly recommends meeting that annual limit if you can swing it. There are several options to choose from. Consult a financial planner to determine the route you are eligible for based on your economic situation."

[http://www.stonegatewealth.com/Smart%20Investing%20%20%20Women%27s%20Health%20Magazine%20October%202011\\_Viscuso.pdf](http://www.stonegatewealth.com/Smart%20Investing%20%20%20Women%27s%20Health%20Magazine%20October%202011_Viscuso.pdf)

2.) November 14<sup>th</sup>, 2011 – Cary was quoted in the Orlando Sentinel’s Ask an Expert column.

**Quote:**

**Q:** How much can I put away for retirement in my 401(k)? I am 52. --**D.B., Longwood**

**A:** You can put away up to \$16,500 in your 401(k) and an additional \$5,500 a year as catch-up since you are over 50. --**Cary Carbonaro**

***News About Stonegate***

Stonegate welcomes Dean Shah, Dean graduated from Worcester Polytechnic Institute with a Master of Science in Mechanical Engineering. He has 30 years of experience in designing, analyzing and operating Nuclear Power Plants. He has authored several technical papers, published in various journals, including The International Atomic Energy Agency (IAEA). He has been quoted in several newspapers, including The New York Times and The Bergen Record. Dean mastered his analytical techniques in the nuclear industry, skills that are highly valuable for use with today’s sophisticated investment analytical tools. Currently, Dean is enrolled in a Certified Financial Planner (CFP) program at Fairleigh Dickinson University in Teaneck, NJ. He is a member of the Financial Planning Association (FPA). Dean is also working to add the Series 65 license. Dean assists us with financial planning and analytical studies related to portfolio management.

***Regards and best wishes for 2012,***

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