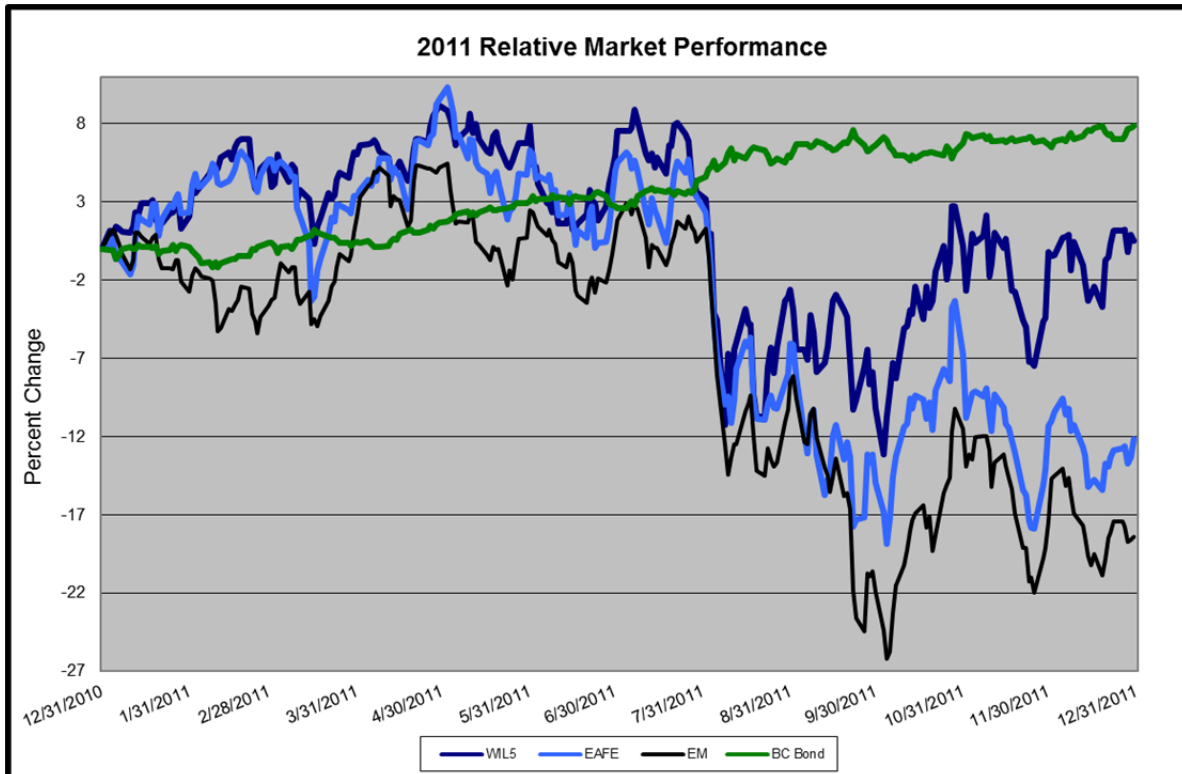


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## Market Commentary Fourth Quarter 2011



Source: *The Wall Street Journal*, *Morningstar*, *djindexes.com*, *standardandpoors.com* & *msci.com*  
 All index returns include reinvested dividends

Market Performance	2011				2011
	1Q	2Q	3Q	4Q	
Dow Jones Industrial Average (DJIA)	7.07	1.42	(11.49)	12.78	8.38
Standard & Poor's 500 (SPX)	5.92	0.10	(13.87)	11.82	2.11
NASDAQ Composite (COMP)	5.05	(0.04)	(12.70)	8.19	(0.83)
Wilshire 5000 (WIL5)	6.06	(0.05)	(15.32)	11.97	0.52
MSCI Europe Australasia and Far East (EAFE)	3.37	1.56	(19.01)	3.33	(12.14)
MSCI Emerging Markets (EM)	2.05	(1.15)	(22.62)	4.42	(18.42)
Barclays Capital U.S. Agg. Index (BC Bond)	0.42	2.29	3.82	1.12	7.84

Source: *The Wall Street Journal*, *Morningstar*, *djindexes.com*, *standardandpoors.com* & *msci.com*  
 All index returns include reinvested dividends  
 \*Trailing Twelve Months

Securities Offered Through TrustCore Investments, Inc.  
 Insurance Offered Through TrustCore Insurance Agency, Inc.  
 Planning Services Offered Through TrustCore Financial Services, Inc.

## Quarterly Performance Review

Global markets reversed trend and ended the quarter on a positive note. In the U.S., a small group of mega-cap stable-earning stocks were the best performers. The Dow Jones Industrial Average, a collection of some of these largest domestic stocks, returned 12.78%. The S&P 500 finished up 11.82% and the NASDAQ Composite gained 8.19%. Lipper, Inc., a mutual fund tracking company, reported that the average U.S. stock fund gained 10.83%. Continued uncertainty surrounding the crisis in Europe held back returns overseas, but performance remained positive. The MSCI Europe, Australasia and Far East Index, a common developed market international stock benchmark, gained 3.33%, while the MSCI EM, a common emerging market benchmark, made 4.42%. Lipper, Inc. also reported that the average foreign stock fund returned 4.30%.

Yield on the benchmark 10-Year U.S. Treasury bond ended the fourth quarter near where it began at 1.89% as global investors continued to seek out the safety of U.S. government debt. Lipper, Inc. reported that the average taxable bond fund made 1.91%, beating the Barclays Capital U.S. Aggregate Bond Index, a common domestic bond benchmark, which gained 1.12%. Bond prices move inversely to yields.

## Year-End Review

The year began on a positive note, but was derailed by what proved to be an eventful year. The following is a short list of the events that significantly affected the economic markets this year:

- Arab spring riots
- Japanese earthquake and tsunami
- End of second quantitative easing
- Loss of U.S. AAA credit rating
- Escalation of Greek debt crisis into Euro-zone crisis
- U.S. budget super committee failure to act

Despite the volatility, domestic markets were able to finish the year clearly ahead of the rest of the world. The Dow Jones Industrial Average finished up 8.38% and the S&P 500 was up 2.11%. It is worth noting that the average return (versus market capitalization return) for the S&P 500 was only 0.43% and 53% of the S&P 500 constituents had negative total returns in 2011. As such, Lipper, Inc. reported that the average U.S. stock fund lost 2.86%.

The international markets did not fare well. A sell-off in the third quarter left the year in the red. The MSCI Europe, Australasia and Far East Index lost 12.14% for the year while the MSCI EM lost 18.42%. Lipper, Inc. also reported that the average foreign stock fund was down 13.42%.

## 2012 Outlook

**Looking forward into 2012, the markets will likely prove to be as volatile as 2011 due to many of the same challenges continuing into the new year.** Global growth will muddle along clouded by European headwinds. Domestically, little is expected from Congress amidst a Presidential election year, further delaying any long-term progress on structural budget and spending reforms. Outside the U.S., fiscal austerity programs will continue in debt ridden countries amid public skepticism and frustration.

## ***Interest Rates***

The Federal Open Market Committee (FOMC), the policymaking arm of the Federal Reserve Bank, maintained the federal funds target rate, which is the overnight rate at which depository institutions lend to each other, at 0.00% to 0.25%. The committee acknowledged moderate expansion in the economy, but in light of the continued weakness and subdued inflation expectations, the Fed will maintain its accommodative stance. Additionally, the Fed has decided to continue with "Operation Twist" which is designed to extend the average maturity of its U.S. Treasury holdings in order to reduce long-term interest rates.

Beginning in January, the Federal Reserve will make public its forecasts of future interest rate policy. The committee will provide quarterly projections on the path of the federal funds rate for the next few years and for the long-run. The central bank is trying to provide the public with a better understanding of their monetary policy decisions and the timing of any moves.

### ***Sustaining Recovery***

Economic growth in the U.S., as measured by GDP, continued at a subdued pace of 1.8% in the third quarter. This growth level was less than the previous 2.0% estimate because consumer spending was lower than forecasted. GDP growth estimates for the fourth quarter of 2011 are in excess of 2.5%. **Estimates for growth in 2012 are in the 2.0% range; however, an escalation of events in Europe could slow our recovery further.**

Job growth continued in December, bringing an additional 200,000 positions. It is unsure how many of these new positions were seasonal hires. This brings the total number of jobs created in 2011 to 1.6 million, still well below the approximately eight million jobs lost during the recession. The unemployment rate also ticked down to 8.5%, its lowest level since February 2009. The U-6, a broader measure that captures the underemployed and those who are part-time workers looking for full-time work, fell from 16.0% to 15.2%. It is believed that some of the most recent reductions in the unemployment rate are from those leaving the workforce because they cannot find work.

### ***Corporate Earnings Growth***

**Companies in the S&P 500 should report record profits for 2011 and 2012.** With one quarter's results left to report, earnings expectations on the S&P 500 for 2011 are \$97.00. This represents a 15.8% increase over 2010 earnings. Currently, analysts project 2012 earnings of \$106.80; however, many economists expect this number to be revised lower due to slowing global growth. Despite the downward revision trend, earnings expectations for 2012 are expected to increase over the record high for 2011. The S&P 500 is currently trading at 14.6 times trailing earnings and 12.8 times forward earnings.

### **Summary**

In the near term, global macro events have the markets out of sync with fundamentals. In the U.S., profits are at record highs, costs are contained, and jobs are slowly being created but investors are hesitant to take on any risk even though stocks are trading at historically attractive valuations. The focus remains on the unfolding euro-zone crisis and will most likely continue to do so well into 2012. Until an effective solution to the euro-zone's debt problems is implemented, global economic growth will remain constrained.

In volatile markets investors should remain focused on their long-term objectives. Asset allocation strategies developed for a portfolio provide a roadmap to follow in times of duress. Steps may need to be taken to ensure capital preservation, but must be weighed against their potential impact on long-term performance. Implementing a disciplined, strategic approach with portfolio allocation across varying asset classes is an important element of a successful investment strategy. That's why at TrustCore, we believe in creating a customized, well-diversified portfolio to help you meet your long-term financial goals.

TrustCore Financial, Inc. makes candid statements and observations regarding economic and market conditions; however, there is no guarantee that these statements, opinions or forecasts will prove to be correct. All investments involve some degree of risk, and there can be no assurance that the investment strategies will be successful. Prices of securities will vary so that when sold, an investment could be worth more or less than original cost.