



Wealth Management Solutions

Fourth Quarter 2011



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Quarterly Economic Commentary

THE MARKETS IN REVIEW

The markets rebounded from the end of the third quarter to finish 2011 mixed. The European debt crisis dominated the financial news throughout the quarter.

Here are the results for the fourth quarter.

Major Indices	September 30, 2011	December 30, 2011	+/- (%)
Dow Jones Industrial Average ¹	10,913	12,218	+ 11.96%
Standard & Poor's 500 ²	1,131	1,258	+ 11.23%
NASDAQ Composite ³	2,415	2,605	+ 7.87%
Russell 2000 ⁴	644	741	+ 13.09%
Dow Jones Composite REIT ⁵	160	179	+ 11.88%
MSCI EAFE ⁶	1,373	1,413	+ 2.91%

The 12-month period ending results for the fourth quarter 2011 are:

Major Indices	December 31, 2010	December 30, 2011	+/- (%)
Dow Jones Industrial Average ¹	11,577	12,218	+ 5.54%
Standard & Poor's 500 ²	1,258	1,258	0.00%
NASDAQ Composite ³	2,653	2,605	- 1.81%
Russell 2000 ⁴	784	741	- 5.48%
Dow Jones Composite REIT ⁵	176	179	+ 1.70%
MSCI EAFE ⁶	1,658	1,413	-14.78%

FOURTH QUARTER ECONOMIC COMMENTARY

The markets rebounded in the fourth quarter from their worst quarter since the financial crisis in the fall of 2008. Interest rates continue to remain near zero. The Fed's economic outlook remains grim expecting conditions to warrant keeping rates at near zero through mid-2013.

The unemployment rate has shown slight improvement and Consumer confidence has recovered back to April 2011 levels. Globally, China and India seem to be slowing down. Even with continued slowing, China and India will count for about half of global GDP growth in 2012. However, investor concern about the European debt crisis continues to loom over the global markets.

INTEREST RATES

Information received since the Federal Open Market Committee met in November suggests that the economy has been expanding moderately, notwithstanding some apparent slowing in global growth. While indicators point to some improvement in overall labor market conditions, the unemployment rate remains elevated. Household spending has continued to advance, but business fixed investment appears to be increasing less rapidly and the housing sector remains depressed. Inflation has moderated since earlier in the year, and longer-term inflation expectations have remained stable.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee continues to expect a moderate pace of economic growth over coming quarters and consequently anticipates that the unemployment rate will decline only gradually toward levels that the Committee judges to be consistent with its dual mandate. Strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee also anticipates that inflation will settle, over coming quarters, at levels at or below those consistent with the Committee's dual mandate. However, the Committee will continue to pay close attention to the evolution of inflation and inflation expectations.

To support a stronger economic recovery and to help ensure that inflation, over time, is at levels consistent with the dual mandate, the Committee decided to continue its program to extend the average maturity of its holdings of securities as announced in September. The Committee is maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate.

The Committee also decided to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that economic conditions--including low rates of resource utilization and a subdued outlook for inflation over the medium run--are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013.



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EMPLOYMENT

The national unemployment rate was 8.6 percent in November, down from 9.0 percent the prior month and from 9.8 percent a year earlier. In November, total nonfarm payroll employment increased by 120,000 over the month and by 1,600,000 over the year.

The number of mass layoff events in November was 1,393, not seasonally adjusted, resulting in 127,750 initial claims for unemployment insurance. Over the year, the number of average weekly mass layoff events decreased by 71 to 348, and associated average weekly initial claims decreased by 7,574 to 31,938. Thirteen of the 19 major industry sectors in the private economy reported over-the-year decreases in average weekly initial claims, with the largest decreases occurring in information, construction, and administrative and waste services. The six-digit industry with the largest number of private nonfarm initial claims in November 2011 was highway, street, and bridge construction.

CONSUMER CONFIDENCE

The Conference Board **Consumer Confidence Index**[®], which had improved in November, increased further in December. The Index now stands at 64.5 (1985=100), up from 55.2 in November. The Present Situation Index increased to 46.7 from 38.3. The Expectations Index rose to 76.4 from 66.4.

The monthly **Consumer Confidence Survey**[®], based on a probability-design random sample, is conducted for The Conference Board by Nielsen, a leading global provider of information and analytics around what consumers buy and watch. The cutoff date for the preliminary results was December 14. After two months of considerable gains, the Consumer Confidence Index is now back to levels seen last spring (April 2011, 66.0).

Consumers' assessment of current conditions improved in December. Those stating business conditions are "good" increased to 16.6 percent from 13.9 percent, while those stating business conditions are "bad" declined to 33.9 percent from 38.0 percent. Consumers' assessment of the job market was also more positive. Those claiming jobs are "plentiful" increased to 6.7 percent from 5.6 percent, while those claiming jobs are "hard to get" decreased to 41.8 percent from 43.0 percent.

Consumers' short-term outlook also improved in December. The proportion of consumers expecting business conditions to improve over the next six months increased to 16.7 percent from 13.7 percent, while those expecting business conditions will worsen declined to 13.4 percent from 16.1 percent.

Consumers' outlook for the job market was also more favorable. Those anticipating more jobs in the months ahead increased to 13.3 percent from 12.4 percent, while those anticipating fewer jobs declined to 20.2 percent from 23.8 percent. The proportion of consumers expecting an increase in their incomes improved to 17.1 percent from 14.1 percent.

INVESTMENT CLASS PERFORMANCE

The six major indices tracked all rebounded posting gains for the third quarter. The Russell 2000, a small cap index, led the quarterly winners bouncing back from a 23% loss for the third quarter to post a 13% gain for the quarter but ended the year down nearly 5.5%. Other markets ended 2011 mixed with the NASDAQ Composite down nearly 2%, the Dow Jones Industrials up 5.5%, the Dow Jones Composite REIT Index up 1.7%, the S & P 500 unchanged and the MSCI EAFE Index led the 6 indices tracked with a loss of than 14%.

CONCLUSIONS

Consumers are spending, but not a lot. Employers are hiring, but not a lot. Housing continues to be the big drag on the economy. European leaders have failed once again to convince investors that they will be able to prevent a breakup of their 17-nation currency union. The probability of a solution to Europe's issues remains low. Nobody knows what it will be, or what the solution might look like. The U.S. economy is not yet strong enough to withstand any financial contagion that spreads from Europe. If the authorities in China and India can beat runaway inflation in those two countries, and Europe doesn't fall off a cliff, their economies will likely have a soft landing. Uncertainty will continue to dominate the financial market news in 2012. However, it does appear that the economy is on the mend and things will improve ever so slightly in 2012.

Please note that the opinions expressed here are those of David L. Kaiser, ChFC[®], AIF[®], Seth King, Jr., ChFC[®], Thomas Teister, Sydney EA Rick, LUTCF, David Miller or Bruce Moulds and should not be construed as investment advice and are subject to change with market conditions. All economic and performance information is historical and does not guarantee future results. Data come from the Federal Reserve, Morningstar.com, WSJ.com, Bloomberg, Yahoo and Reuters and is current as of December 30, 2011.

¹ **Dow Jones Industrial Average**: A price-weighted average of 30 actively traded blue-chip stocks, primarily industrials, including stocks that trade on the New York Stock Exchange. The Dow, as it is called, is a barometer of how shares of the largest US companies are performing.

² **Standard & Poor's 500**: A market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity and industry group representation. Included are the stocks of industrial, financial, utility and transportation companies.

³ **National Association of Securities Dealers Automatic Quotation System (NASDAQ)**: An electronic quotation system that provides price quotations to market participants about the more actively traded common stock issues in the over-the-counter market. About 7,000 common stock issues are included in the NASDAQ system.

⁴ The **Russell 2000** is an index comprised of 2,000 smaller company stocks. Used as a measure of small cap stock performance.

⁵ The **Dow Jones REIT Composite Index** contains all the publicly traded U.S. REITs in the Dow Jones U.S. stock universe.

⁶ The **Morgan Stanley Capital International Europe, Australia and Far East Index (MSCI EAFE Index)** is a widely recognized benchmark of non-U.S. stock markets. It is an unmanaged index composed of a sample of companies representative of the market structure of 20 European and Pacific Basin countries and includes reinvestment of all dividends. Individuals cannot invest directly in an index.

The index performance is for illustrative purposes and is not indicative of any investment. Past performance is no indication of future performance. The index performance is for illustrative purposes and is not indicative of any investment. An investment cannot be made directly into an index. Cambridge Investment Research, Inc. as a firm does not make a market in, or conduct any research on, or recommend the purchase or sale of any of the above issues.
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