



## Solutions Centered Wealth Management

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### THE MARKETS

Markets were positive overall as talks between the Greek government and the Institute of International Finance continued Friday in an effort to cut a deal that would substantially lower Greece's debt payments to private-sector creditors. U.S. economic news was modestly encouraging, as jobless numbers fell, U.S. price indices stayed fairly flat, and home sales improved somewhat. The Chinese economy showed signs of slowing, while German economic sentiment rebounded.

Corporate earnings reports were mixed. Many reflected the challenges faced by large U.S. banks. Others, including earnings results from U.S. technology giants, were more encouraging. Stocks rose overall globally, and U.S. Treasury yields rose as demand for the safe-haven securities eased, reflecting improved investor sentiment.

Returns through 01/20/12	1 Week	YTD	1-Year	3-Year	5-Year
<b>Dow Jones Industrials</b>	<b>2.46</b>	<b>4.27</b>	<b>10.52</b>	<b>20.35</b>	<b>3.03</b>
<b>NASDAQ Composite</b>	<b>2.80</b>	<b>6.97</b>	<b>3.05</b>	<b>24.59</b>	<b>2.60</b>
<b>Russell 2000</b>	<b>2.68</b>	<b>5.93</b>	<b>2.21</b>	<b>23.54</b>	<b>1.37</b>
<b>S &amp; P 500</b>	<b>2.06</b>	<b>4.70</b>	<b>4.93</b>	<b>20.35</b>	<b>0.48</b>
<b>MSCI EAFE NR USD</b>	<b>4.04</b>	<b>4.26</b>	<b>-9.19</b>	<b>13.41</b>	<b>-4.02</b>

Source: Morningstar.com. \* Past performance is no guarantee of future results. Indexes are unmanaged and cannot be invested into directly. Three and five-year returns are annualized. The S&P, excluding "1 Week" returns, is a reflection of return to an investor, by reinvesting dividends after the deduction of withholding tax.

**Three bank failures last week** – According to information available on the FDIC website, there were three bank failures reported last week. American Eagle Savings Bank, Boothwyn, PA with approximately \$19.6 million in total assets and \$17.7 million in total deposits was closed. Capital Bank, National Association (N.A.) has agreed to assume all deposits. The First State Bank, Stockbridge, GA with approximately \$536.9 million in total assets and \$527.5 million in total deposits was closed. Hamilton State Bank has agreed to assume all deposits. Central Florida State Bank, Belleview, FL with approximately \$79.1 million in total assets and \$77.7 million in total deposits was closed. CenterState Bank of Florida, National Association (N.A.) has agreed to assume all deposits. Three banks have failed in 2012. The FDIC website listed 90 bank failures in 2011, 157 bank failures in 2010, 140 in 2009, 26 in 2008, 3 in 2007, zero in 2006 and 2005.

**Weekly U.S. jobless claims drop by 50,000** – Initial jobless claims fell by 50,000 to a seasonally adjusted 352,000 in the week ending January 21, decreasing the four-week average by 3,500 to 379,000. Both numbers are well below the 400,000 mark, widely viewed as indicative of the U.S. economy adding jobs overall.

**U.S. housing market improves slightly, misses expectations** – Sales of U.S. existing homes rose 5.0% in December from November, the third straight monthly increase, according to the National Association of Realtors. However, the results fell short of a forecast of 5.2% growth. For all of 2011, 1.7% more homes sold than in 2010. Overall, 4.26 million homes were sold last year, down from a peak of more than 7 million in 2005.

**Consumer, producer inflation tame** – Readings on U.S. producer and consumer prices, released by the U.S. Department of Labor, showed little month-to-month change in December. The producer price index fell 0.1% in December from November on lower food and energy costs. However, core prices, stripping of food and energy, rose 0.3%. For the year, producer prices rose 4.8%. The consumer price index was unchanged in December, and increased 3.0% for the year. The core CPI edged up 0.1% for the month and rose 2.2% for all of 2011.

**Kodak files for bankruptcy** – Following through on its rumored move, Eastman Kodak filed for bankruptcy protection after running short of cash. The photography icon has secured close to \$1 billion in financing from Citigroup to help keep it in business through its bankruptcy proceedings. Kodak is hoping to improve liquidity, sell some of its patent portfolio, and shed some legacy liabilities, including pension and health care obligations.

**Tech bellwether Intel has strong quarter** – Intel posted a 5.7% gain in fourth-quarter earnings as the technology bellwether's business withstood tougher competitive pressures and economic constraints in Europe and China. Intel's revenue rose 21% on strong demand from a number of its business divisions.

**Google's 7% profit growth disappoints** – Search engine giant Google posted weaker-than-expected earnings results despite a 7% profit growth and 25% rise in revenue from its year-earlier period. These numbers were down sharply from its third-quarter results of a 26% profit growth and 33% gain in revenue.

**IBM software success offsets hardware weakness** – IBM grew its fourth-quarter earnings 4.4% as gains in software and services revenue offset a slowdown in its hardware business.

**Microsoft flat profit beats expectations** – Software giant Microsoft profited from strength in its Office program suite and Xbox gaming system to outweigh weakness in its Windows operating system. For its second fiscal quarter, ended December 31, Microsoft's overall earnings were down by the slightest margin, to \$6.62 billion from \$6.63 billion.



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**GE profit slides 18%** – General Electric's fourth-quarter earnings fell 18% on a decline in revenue after it sold its majority stake in NBC Universal. However, GE's industrial business saw infrastructure orders grow 15% from a year earlier. Revenue shrank 7.9% overall.

**Greek debt deal looms** – Discussions between the Greek government and private sector creditors continued for a third day Friday, ahead of efforts to complete a second rescue package for the troubled country. With a potential bailout in the works for next week, time is critically important. A senior delegation from the International Monetary Fund, European Central Bank, and European Union arrived in Athens Friday to discuss the rescue package. Next Monday, European finance ministers will meet in Brussels to work out their portion of the next Greek bailout, forecast at €130 billion.

**Chinese economy and manufacturing gauge slip** – China's gross domestic product grew 8.9% in the final quarter of 2011 compared with a year earlier, a higher-than-expected growth rate but an indication of a slowdown for the world's fastest economic engine. On a quarterly basis, China's GDP growth was 8.2%. A separate report showed that China's manufacturing purchasing managers index stood at 48.8, just below the threshold of 50 that separates growth from contraction. This was the third straight month of declining manufacturing activity in China.

**German economic sentiment index has record rise** – Germany's latest ZEW monthly economic sentiment index rose to -21.6 in January from -53.8 in December, the single largest monthly increase since the survey's inception in 1991. Germany also paid the lowest interest rate ever on two-year Treasury notes Wednesday, 0.17%, as debt downgrades on France and Austria last Friday made German debt more appealing.

**Germany cuts growth forecast** – The German government cut its economic forecast for 2012 for the second time in recent months. Currently, Germany expects its economy to grow 0.7%, down from 1.0% in October, which was a reduction from its original 1.8% projection for the year.

#### The week ahead

- McDonald's and Apple announce quarterly earnings Tuesday, January 24.
- Boeing releases earnings Wednesday, January 25.
- Germany's Ifo survey released Wednesday, January 25.
- National Association of Realtors announces pending home sales Wednesday, January 25.
- The Conference Board releases monthly leading economic indicators Thursday, January 26.
- U.S. Department of Commerce publishes its durable goods orders report Thursday, January 26.
- Ford releases earnings Thursday, January 26.
- U.S. Labor Department releases initial estimate for fourth-quarter GDP Friday, January 27.

## WEEKLY FOCUS

The Greek economy is in free fall after shrinking by more than 6 per cent last year compared with official forecasts of 3.8-4.5 per cent. Private owners of Greek debt have made their "maximum" offer for the losses they are willing to accept, the bondholders' lead negotiator has said, implying that any further demands could kill off any "voluntary" deal and trigger a default. Some hope still remains that the two sides can reach a deal that would prevent a full-scale Greek default when a €14.4bn bond comes due on March 20.

But the mood in Athens was tense Sunday night after it became clear that an outline agreement on cutting Greece's debt by €100bn could not be reached ahead of Monday's meeting of euro zone finance ministers in Brussels.

Friday's demand by official creditors, led by the International Monetary Fund, for a further interest rate cut of 50 basis points on new long-term bonds to be swapped for existing Greek debt may have put a voluntary deal out of reach.

Greek officials said that despite Friday's setback they were still optimistic a voluntary deal could be achieved ahead of a European leaders' summit on January 30. Greece is due to agree terms of an updated "medium-term" fiscal program this week with visiting monitors from the European Commission, European Central Bank and International Monetary Fund. Discussions will be tough as successive governments have missed budget deficit targets while failing to implement structural reforms.

Athens will have to take additional measures this year to achieve deficit reduction of €7bn this year, after achieving only €2bn of cuts in 2011, according to the Greek budget for 2012. This will entail further wage cuts in the public and private sectors, pension reductions and faster cuts in healthcare spending.

Both the debt swap and the new fiscal program must be in place before Greece will be allocated funding from a second €130bn rescue package. Official creditors are concerned that without harsher terms for private bondholders, Greece's debt may exceed the 120 debt to gross domestic product ratio in 2020 that the IMF deems sustainable.

It's likely that the current Greek debt crisis will lead to an increase in market volatility. Please call us to schedule a complimentary portfolio review or to discuss any concerns.

Sources: The Wall Street Journal; The Associated Press Newswire, The Wall Street Journal Online; Bloomberg News; Financial Times, Investor's Business Daily. This material does not constitute tax, legal or accounting advice and neither Pinnacor Financial Group, Inc. nor Cambridge offers such specific tax advice. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. 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. Diversification does not guarantee against market declines or portfolio losses. You cannot invest directly in an index.

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