



Solutions Centered Wealth Management

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THE MARKETS

Financial markets enjoyed a fairly calm week as mildly positive U.S. and European economic reports, along with some corporate earnings news, gave investors encouragement. However, with Greek bailout talks under way again and with a potential resolution expected early next week, we could see renewed capital market volatility. The U.S. gross domestic product (GDP) report released Friday morning showed a pickup in activity, but it fell shy of expectations, sending stocks downward. As a result of euro zone nervousness, the Japanese yen rose because it was seen as a safe-haven currency. The euro also gained versus the U.S. dollar, which has been weighed down by the Federal Reserve Board's extended commitment to keep interest rates low well into 2014.

Returns through 01/27/12	1 Week	YTD	1-Year	3-Year	5-Year
Dow Jones Industrials	-0.47	3.78	8.46	19.03	3.07
NASDAQ Composite	1.07	8.11	2.22	23.24	2.95
Russell 2000	1.83	7.87	1.79	22.25	1.66
S & P 500	0.09	4.79	3.45	18.42	0.62
MSCI EAFE NR USD	1.63	5.96	-10.07	13.09	-3.63

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.

Four bank failures last week – According to information available on the FDIC website, there were four bank failures reported last week. BankEast, Knoxville, TN with approximately \$272.6 million in total assets and \$268.8 million in total deposits was closed. U.S. Bank National Association (N.A.) has agreed to assume all deposits. Patriot Bank Minnesota, Forest Lake, MN with approximately \$111.3 million in total assets and \$108.3 million in total deposits was closed. First Resource Bank has agreed to assume all deposits. Tennessee Commerce Bank, Franklin, TN with approximately \$1.185 billion in total assets and \$1.156 billion in total deposits was closed. Republic Bank & Trust Company has agreed to assume all deposits. First Guaranty Bank & Trust Company of Jacksonville, Jacksonville, FL with approximately \$377.9 million in total assets and \$349.5 million in total deposits was closed. CenterState Bank of Florida, N.A. has agreed to assume all deposits. The FDIC website lists 7 bank failures in 2012, 90 in 2011, 157 in 2010, 140 in 2009, 26 in 2008, 3 in 2007, zero in 2006 and 2005.

U.S. Federal Reserve Board to keep rates low longer – The Federal Reserve made clear its intention to maintain low short-term interest rates until at least late 2014, extending its earlier intention of mid-2013, indicating its concern for the U.S. economy's strength. The Fed's overall forecast indicated ongoing concern over the weak jobs market and housing sector.

Fourth-quarter U.S. GDP picks up – The U.S. economy grew at an annual rate of 2.8% in the fourth quarter, said the U.S. Department of Commerce in its preliminary report on quarterly GDP. Economists had expected a 3.0% growth pace. The U.S. economy grew 1.7% for 2011 overall.

U.S. consumer sentiment rises – U.S. consumers were more confident than forecast in January, as the Thomson Reuters/University of Michigan final index of consumer sentiment rose to 75 from 69.9 in late December. This beat the average estimate of 74.0 in a Bloomberg News survey. The index averaged 64.2 in the last recession and averaged 89.0 during the previous five years of growth.

U.S. new home sales drop unexpectedly – Sales of new U.S. homes fell unexpectedly in December. The 2.2% decline brought the 2011 full-year tally to 302,000, a drop of 6.2% from 2010, and made 2011 the worst year for the housing industry since records began in 1963.

U.S. leading indicators rise slightly – The leading U.S. economic indicators increased in December, but less than expected, the Conference Board reported. The Conference Board Leading Economic Index, newly composed last month, rose 0.4% after gaining 0.2% in November. The December increase was below the 0.8% that had been forecast by economists surveyed by Dow Jones Newswires. Seven of the 10 leading indicators were higher, particularly the interest rate spread and jobless claims.

Durable goods orders have broad rise – Orders for goods designed to last at least three years rose by 3% in December, the U.S. Commerce Department reported. Orders for nondefense capital goods excluding aircraft, a key gauge of capital spending by businesses, increased by 2.9%, after falling the previous two months. Orders for cars, commercial airplanes, machinery, communications equipment, and primary metals were all higher. Orders for electrical equipment and fabricated metals declined.

Weekly U.S. jobless claims jump by 21,000 – Initial jobless claims by U.S. workers rose by 21,000 to a seasonally adjusted 377,000 in the week ended January 21, after falling sharply the week before. The four-week average fell by 2,500 to 377,500.

Apple's profit doubles on iPhone popularity – Apple rode the wave of iPhone success to one of the most profitable quarters ever for a U.S. company, raising its quarterly earnings to \$13.1 billion. Sales rose 73% for the quarter ended December 31. On Wednesday, Apple's market value briefly topped that of Exxon Mobil as the company with the largest market capitalization before receding. Revenue for the iPhone and iPad now account for 72% of Apple's sales.



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Ford posts record earnings on tax gain; trails estimates – Ford Motor Company reported its largest-ever fourth-quarter profit, \$13.6 billion, thanks to a tax gain related to a reversal of a valuation allowance it made five years ago when it struggled financially. Excluding the one-time gain, Ford's profit of \$1.1 billion came to \$0.20 per share, shy of the \$0.25 average analyst estimate. This was the U.S. automaker's eleventh consecutive profitable quarter.

McDonald's serves up profits – McDonald's continued to dominate the fast-food world, registering an 11% increase in its fourth-quarter earnings on a 9.8% rise in revenue. The company benefited from competitive pricing and an increasingly diverse menu. Its global same-store sales rose 7.5%.

Johnson & Johnson, Novartis earnings drop – Two pharmaceutical firms reported sharply lower profits for the quarter. Johnson & Johnson posted an 89% plunge in fourth-quarter profit after paying costly legal settlements and product liability expenses. However, the company's quarterly sales rose 3.9%. Switzerland's Novartis reported a 46% drop in fourth-quarter earnings after absorbing restructuring costs, research and development write-offs, lower prices on its drugs, and the negative impact of the strong Swiss franc.

Procter & Gamble earnings drop by half – Consumer goods giant Procter & Gamble saw its second-quarter earnings fall by 49% as it took a write-down on its unprofitable appliances and salon businesses and had its profit margin narrowed by higher commodity costs. P&G's sales were 3.7% higher than a year earlier.

IMF cuts global growth forecast – The International Monetary Fund cut its forecast for global growth, warning that the situation could become even worse if Europe does not take strong action to resolve its debt crisis. The global economy will grow 3.3% in 2012, the IMF said, down from 3.8% in 2011 and down from its forecast of 4% growth made in September.

Japan has first trade deficit in three decades – For the first time since 1980, Japan imported more goods than it exported in 2011. Japan's exports have been curtailed by a slowdown in global economic growth. Rising energy imports and the strong yen have also contributed to the shifting trade balance.

Euro zone PMI above 50 – The euro zone's private sector grew unexpectedly in January, offering new hope that a potential downturn in the economic region may not be that severe. Markit's Flash Eurozone Purchasing Managers' Composite Index (PMI) rose 2.1 points to 50.4 in January, its highest level in five months, and tentatively indicating growth (above 50). Robust growth in Germany, which makes up about 30% of the euro zone's economy, outweighed weakness in southern European areas.

Euro zone consumer confidence rises – Euro zone consumer confidence picked up slightly in January, as the European Commission reported that its preliminary consumer confidence reading rose to -20.6 from -21.3 in December. Economists had expected a decline. This was the first rise in euro zone consumer confidence in seven months.

German businesses more confident – German business confidence rose more than expected in January, according to the Ifo Institute's Business Climate Index, which increased to a five-month high of 108.3, from 107.3 in December. The positive report, along with manufacturing and service industry expansion, indicates that the German economy likely avoided a fourth-quarter contraction.

Samsung posts profit despite tight smartphone competition – South Korea's Samsung Electronics posted a 17% rise in quarterly profit on 13% higher revenue. Competitive pressure from Apple's iPhone in the electronics firm's smartphone business was more than offset by higher semiconductor chip profits earned on cost efficiencies.

Nokia hurt by cell phone competition – Finland's Nokia reported a quarterly net loss of €1.07 billion, down from a €745 million profit a year earlier, as sales fell 21%. Nokia's shipped smartphone units dropped 31%. The firm is now ranked third globally in smartphone sales after Apple and Samsung.

The week ahead

S & P's/Case-Shiller Home Price Indices released Tuesday, January 31.
Exxon-Mobil and Imperial Oil announce quarterly earnings Tuesday, January 31.
ADP monthly employment report release Wednesday, February 1.
Bloomberg consumer comfort index Thursday, February 2.
Monthly U.S. employment situation report Friday, February 3

WEEKLY FOCUS

Saving for retirement is one of today's biggest concerns for workers. Workers will be eligible to contribute an additional \$500 to their 401ks in 2012. Employees with higher incomes will also be eligible to get a tax break for saving in a traditional IRA, contribute to a Roth IRA, and qualify for the saver's credit. Here's a quick look at how the 401k and IRA contribution rules will change in 2012.

Higher 401k contributions. The contribution limit for 401k's, 403b's, and the federal government's Thrift Savings Plan will increase to \$17,000 in 2012, up from \$16,500 in 2011. However, catch-up contribution limits for those age 50 and over or turning age 50 in 2012 will remain at \$5,500. These limits apply to both traditional and Roth versions of these employer sponsored plans.

Increased IRA income limits. IRA contribution limits will remain at \$5,000 in 2012, and \$6,000 for those age 50 and older. And, like this year, only workers who earn below certain income levels get a tax break for contributing to a traditional IRA. But those income limits will relax slightly in 2012. The tax deduction for traditional IRA contributions will be phased out for singles and heads of household with workplace retirement plans who have modified adjusted gross incomes between \$58,000 and \$68,000 in 2012 (\$92,000 to \$112,000 for couples), up \$2,000 from 2011. For IRA owners without a retirement plan at work, the deduction is phased out if the couple's income is between \$173,000 and \$183,000, up \$4,000 from last year.

Please call us to schedule a complimentary portfolio review or to discuss taking advantage of increasing your retirement plan contributions in 2012.

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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