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It's Groundhog Day, again, and again.....

For those who remember the movie "Groundhog Day" starring Bill Murray the plot is when he wakes up every morning, it is Groundhog Day again and again. The world today bears a striking resemblance to the movie. Our "groundhogs" are Europe with their never ending charade of rescue plans and the US Congress repeated gridlock over the budget. First, we will look at Europe.

From last week's letter the market seemed to briefly sober up, but Europe is still ugly. Germany is insisting on playing a dangerous game of "chicken" with the rest of the world. Chancellor Merkel and company do so by stalling on definitive actions that only exacerbates an already unstable position. Today, the German Bundesbank announced there was no "urgent need" for a final decision on loans to the IMF. And again, it's Groundhog Day with the same stuff, just a different day. The Germans are willing to pay their "fair" share, but only if non-European countries participate as well. IMF Chief Lagarde spoke to the US Treasury Department yesterday and warned the world is looking at a repeat of the 1930's depression unless the EU comes together and the rest of the world participates by providing money to bail out Europe. Lagarde fears the risks of economic retraction, rising protectionism and isolation, much as it occurred in the '30's, is imminent if the US, China, Japan and others do not agree to supply the IMF with bailout funds. These comments were offered a day after the Fed indicated the US had no plans of contributing to the Eurozone bailout. A dangerous game of chicken.

In a similar vein Washington finds itself in the midst of another impasse which could shut down a number of Federal agencies giving us another Groundhog Day event. Gridlock. Temporary extensions. We have written about the probability of nothing getting done until after the 2012 elections. The can that continues to be kicked down the road will be unrecognizable by election time. It is politics as usual. During the latter part of the Civil War, Lincoln faced an uphill battle with McClellan in 1864 for re-election. He knew that his opponent would issue a cease-fire if elected, given the growing discontent of voters regarding the heavy losses sustained by Union forces. Lincoln was convinced the Union must win the war, and do it convincingly. Otherwise, the country would be split and fragmented which would only lead to the children of current soldiers to fight the same war again in a few years. In short, he knew for the country to survive, it could not become Europe. Europe is

playing out today just as Lincoln saw it in 1864. A land of many countries with different governments that have typically resulted in disagreement or war. Lincoln also knew that our country, as one, could only become conquered by internal destruction. Washington today is making a noble effort.

The geopolitical risk in the world today continues to dominate the economy, the capital markets and all things seen and unseen. **Fear and uncertainty trump valuation.** Money Managers must consider both when evaluating the investment landscape. US Treasury bonds continue to offer bubble-like yields with the 10- and 30-year bonds under 2 and 3% respectively. In addition to a safe-haven for investors, the Fed has also been a buyer of Treasury bonds, so yields are artificially depressed to a level that precludes our participation. Equities offer good, long-term value relative to bonds. The geopolitical clouds discussed above increase the risk, but also provide opportunities. I always prefer to buy something on sale rather than full price. We continue to seek companies that offer reliable dividends and are financially sound and can weather the storm clouds and emerge at a competitive advantage when the sun begins to shine again. Gold has been under increased selling pressure as the dollar has strengthened due to the perceived safety of the currency. The continued printing of money on a global basis ensures our thought that in the near-term gold remains a bullish alternative. Emerging markets are experiencing a deceleration of growth, but still at levels that are much more robust than the developed markets. Despite the relative attraction, this market will experience heightened volatility when the market is in crisis mode. It will also recover at a much greater clip than developed markets. Many of these emerging countries run surpluses and their central banks have the latitude for an easing policy which will temper the threat of declining growth.

The economic news in the US continues to be respectable, given current global conditions. Europe is in a much more precarious situation regarding economic growth. In the absence of a complete European meltdown, we believe the US economy will avoid recession. It will not be overly robust, but we do not believe it will be a contraction. The jobless claims filed this week were lighter than expected. A favorable indication, but uncertainty out of Washington will continue to make companies pause before adding to their ranks. The jobs picture is worse in Spain, with unemployment at 21%. Their U-6 unemployment rate (includes part-time looking for full-time and those that have given up) is 35%. Why? The government forces any company who releases an employee to pay them a full year of full pay for severance. Given the uncertainty in the world, why would a company add a full-time employee?

Next week, there are a number of economic reports to be issued (see attached). The first part of the week is dominated by housing, while the latter part is filled with GDP, University of Michigan Confidence, Leading Indicators, Capital Goods Orders, and Personal Income. The revised 3Q GDP number is expected to remain at 2%. Looking to 2012, the median estimate from 82 economists for GDP growth is 2.19% (source: Bloomberg). Again, nothing spectacular, but not a contraction.

Please let us know if you have any questions. Have a great weekend.

All the best,

Troy

Economic Data – Week of December 19, 2011

| Date Time | Event | | Survey | Actual | Prior | Revised |
|------------------|---------------------------------|--------|--------|--------|--------|---------|
| 12/19/2011 10:00 | NAHB Housing Market Index | DEC | 20 | -- | 20 | -- |
| 12/20/2011 08:30 | Housing Starts | NOV | 630K | -- | 628K | -- |
| 12/20/2011 08:30 | Housing Starts MOM% | NOV | 0.30% | -- | -0.30% | -- |
| 12/20/2011 08:30 | Building Permits | NOV | 635K | -- | 653K | 644K |
| 12/20/2011 08:30 | Building Permits MOM% | NOV | -1.40% | -- | 10.90% | 9.30% |
| 12/21/2011 07:00 | MBA Mortgage Applications | 16-Dec | -- | -- | 4.10% | -- |
| 12/21/2011 10:00 | Existing Home Sales | NOV | 5.07M | -- | 4.97M | -- |
| 12/21/2011 10:00 | Existing Home Sales MoM | NOV | 2.10% | -- | 1.40% | -- |
| 12/22/2011 08:30 | Chicago Fed Nat Activity Index | NOV | -- | -- | -0.13 | -- |
| 12/22/2011 08:30 | GDP QoQ (Annualized) | 3Q T | 2.00% | -- | 2.00% | -- |
| 12/22/2011 08:30 | Personal Consumption | 3Q T | 2.30% | -- | 2.30% | -- |
| 12/22/2011 08:30 | GDP Price Index | 3Q T | 2.50% | -- | 2.50% | -- |
| 12/22/2011 08:30 | Core PCE QoQ | 3Q T | 2.00% | -- | 2.00% | -- |
| 12/22/2011 08:30 | Initial Jobless Claims | 17-Dec | 375K | -- | -- | -- |
| 12/22/2011 08:30 | Continuing Claims | 10-Dec | -- | -- | -- | -- |
| 12/22/2011 09:45 | Bloomberg Consumer Comfort | 18-Dec | -- | -- | -49.9 | -- |
| 12/22/2011 09:45 | Bloomberg Economic Expectations | DEC | -- | -- | -32 | -- |
| 12/22/2011 09:55 | U. of Michigan Confidence | DEC F | 68 | -- | 67.7 | -- |
| 12/22/2011 10:00 | Leading Indicators | NOV | 0.30% | -- | 0.90% | -- |
| 12/22/2011 10:00 | House Price Index MoM | OCT | 0.20% | -- | 0.90% | -- |
| 12/23/2011 08:30 | Durable Goods Orders | NOV | 2.20% | -- | -0.70% | -0.50% |
| 12/23/2011 08:30 | Durables Ex Transportation | NOV | 0.40% | -- | 0.70% | 1.10% |
| 12/23/2011 08:30 | Cap Goods Orders Nondef Ex Air | NOV | 0.90% | -- | -1.80% | -- |
| 12/23/2011 08:30 | Cap Goods Ship Nondef Ex Air | NOV | -- | -- | -1.10% | -- |
| 12/23/2011 08:30 | Personal Income | NOV | 0.30% | -- | 0.40% | -- |
| 12/23/2011 08:30 | Personal Spending | NOV | 0.30% | -- | 0.10% | -- |
| 12/23/2011 08:30 | PCE Deflator (YoY) | NOV | 2.70% | -- | 2.70% | -- |
| 12/23/2011 08:30 | PCE Core (MoM) | NOV | 0.10% | -- | 0.10% | -- |
| 12/23/2011 08:30 | PCE Core (YoY) | NOV | 1.70% | -- | 1.70% | -- |
| 12/23/2011 10:00 | New Home Sales | NOV | 313K | -- | 307K | -- |
| 12/23/2011 10:00 | New Home Sales MoM | NOV | 2.00% | -- | 1.30% | -- |

Source: Bloomberg

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