Upward *Thinking*.
The Week Ahead

February 10, 2012
Troy Gayle, CFA, CAIA
Chief Investment Officer

EXCELSIA®
Investment Advisors

Excelsia.com
t: 912-598-4032 f: 912-598-4142
15 Lake St. Suite 100, Savannah, GA 31411

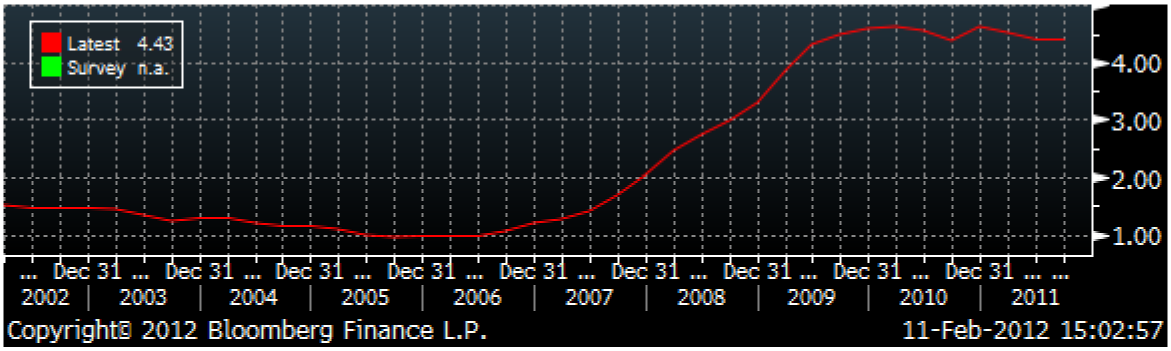
Greek Salad or Sauerkraut?

If Greece wishes to remain in the euro, it seemingly will cost them their sovereignty. Germany is pushing for Greece to transfer national budgetary sovereignty in exchange for another lifeline of rescue funds. Greece is on a rather slippery slope. The country is already in recession and is having continued heavy doses of austerity required of them, which will only serve to exacerbate the weakness. As it stands, Greece is technically in default and they are currently negotiating for private investors to take even deeper “voluntary” reductions to the value of their bonds. The Greek people are revolting and the politicians are reticent to accept the harsh reality that is needed for other member countries to approve another round of bailout money. Portugal appears to be next in the crosshairs, though Ireland, Spain, Italy and others (even France) face an uphill battle. The European Central Bank (ECB) has already quietly allowed their own balance sheet to explode through purchases of sovereign debt and the December move (LTRO - Long-Term Repo Operation) to stem the potential freeze-up of interbank lending. The ECB intervention has certainly had a calming effect to the markets, which in part explains the positive performance in equities thus far in 2012.

In the US, it is election year. Politicians are well-versed in the art of re-election. They will ensure an abundance of lipstick is applied to the proverbial pig. We should expect further announcements in the coming months to inspire voter optimism and the belief that Washington has our best interest at heart. The most recent program is intended to aid the housing market by flushing out the foreclosure pipeline. It appears that homeowners who stopped paying their mortgages and have little skin in the game (read: little to negative equity) are in for a potential windfall. If these folks will agree to short sell their home, the bank will forgive part or all of the deficiency and even provide cash for relocation assistance. If you put say 20% down and the housing collapse has eroded your equity, yet you continue to pay your monthly obligation, you will not qualify for this program. I still believe tax incentives that would allow for large capital losses (as opposed to $3,000 per year) remain a viable option.

The chart below depicts foreclosures as a percent of total loans. There has been little change in three years. It is estimated that over $250 billion is currently in the foreclosure pipeline. Fed Chairman Bernanke indicated Friday in a speech to the National Association of Home Builders that declines in home prices continue to have a negative impact on consumer spending, which accounts for nearly 70% of economic activity. He further contends that the broader economy will not fully recover until the depressed housing market reverses course.

Foreclosures as a % of Total Loans



The next chart reflects mortgage delinquencies, which may be trending lower, but are still at elevated levels. The efforts by the Fed to lower mortgage rates have provided little relief to homeowners who are unable to refinance as declining home values have eliminated equity, or worse, the value is much less than what is owed. The situation is further complicated by banks that have tightened lending standards that make it difficult now for even creditworthy borrowers to refinance. It was just a few years ago that banks were willing to lend to most anyone with little or no documentation. This is an area I expect Washington will exert significant effort in order to show improvement as November approaches.

Mortgage Delinquencies as a % of Total Loans

Overall, the US economy continues to muddle through. While the US may be in a better position than Europe, we certainly do not have the winds at our back. The fact that the Fed recently forecast that short-term interest rates would remain near zero through 2014 (from mid-2013) clearly speaks to the concerns for economic growth in the eyes of the Fed. Next week is filled with various economic reports, including producer and consumer inflation, industrial production, retail sales and others (see attached chart). The ECB and Fed are on alert and are “locked and loaded” to respond to any crisis that may erupt from Europe. We must also not lose sight of the saber-rattling from Iran. President Ahmadinejad announced that Iran will soon unveil “big new” nuclear achievements. As UN sanctions continue to be implemented, the Strait of Hormuz has repeatedly been threatened to be disrupted by Iran, potentially choking off 20% of all oil traded worldwide.

Please let us know if you have any questions.

All the best,
Troy

Economic Data – Week of February 13, 2012

Date Time	Event		Survey	Prior
02/14/2012 07:30	NFIB Small Business Optimism	JAN	95	93.8
02/14/2012 08:30	Import Price Index (MoM)	JAN	0.30%	-0.10%
02/14/2012 08:30	Import Price Index (YoY)	JAN	7.20%	8.50%
02/14/2012 08:30	Advance Retail Sales	JAN	0.80%	0.10%
02/14/2012 08:30	Retail Sales Less Autos	JAN	0.50%	-0.20%
02/14/2012 08:30	Retail Sales Ex Auto & Gas	JAN	0.50%	0.00%
02/14/2012 08:30	Retail Sales "Control Group"	JAN	0.40%	- -
02/14/2012 10:00	Business Inventories	DEC	0.40%	0.30%
02/14/2012	Revisions: Producer Price Index			
02/15/2012 07:00	MBA Mortgage Applications	10-Feb	- -	7.50%
02/15/2012 08:30	Revisions: Consumer Price Index			
02/15/2012 08:30	Empire Manufacturing	FEB	14.8	13.48
02/15/2012 09:00	Total Net TIC Flows	DEC	- -	$48.6B
02/15/2012 09:00	Net Long-term TIC Flows	DEC	$35.0B	$59.8B
02/15/2012 09:15	Industrial Production	JAN	0.60%	0.40%
02/15/2012 09:15	Capacity Utilization	JAN	78.60%	78.10%
02/15/2012 10:00	NAHB Housing Market Index	FEB	26	25
02/15/2012 14:00	Minutes of FOMC Meeting			
02/16/2012 08:30	Producer Price Index (MoM)	JAN	0.40%	-0.10%
02/16/2012 08:30	PPI Ex Food & Energy (MoM)	JAN	0.20%	0.30%
02/16/2012 08:30	Producer Price Index (YoY)	JAN	4.10%	4.80%
02/16/2012 08:30	Initial Jobless Claims	11-Feb	365K	- -
02/16/2012 08:30	PPI Ex Food & Energy (YoY)	JAN	2.70%	3.00%
02/16/2012 08:30	Continuing Claims	4-Feb	3490K	- -
02/16/2012 08:30	Housing Starts	JAN	671K	657K
02/16/2012 08:30	Housing Starts MOM%	JAN	2.10%	-4.10%
02/16/2012 08:30	Building Permits	JAN	680K	679K
02/16/2012 08:30	Building Permits MOM%	JAN	1.30%	-0.10%
02/16/2012 09:45	Bloomberg Consumer Comfort	12-Feb	- -	-41.7
02/16/2012 09:45	Bloomberg Economic Expectations	FEB	- -	-19
02/16/2012 10:00	Mortgage Delinquencies	4Q	- -	7.99%
02/16/2012 10:00	MBA Mortgage Foreclosures	4Q	- -	4.43%
02/16/2012 10:00	Philadelphia Fed.	FEB	9	7.3
02/17/2012 08:30	Consumer Price Index (MoM)	JAN	0.30%	0.00%
02/17/2012 08:30	CPI Ex Food & Energy (MoM)	JAN	0.20%	0.10%
02/17/2012 08:30	Consumer Price Index (YoY)	JAN	2.80%	3.00%
02/17/2012 08:30	CPI Ex Food & Energy (YoY)	JAN	2.20%	2.20%
02/17/2012 08:30	Consumer Price Index NSA	JAN	226.573	225.672
02/17/2012 08:30	CPI Core Index SA	JAN	- -	227.166
02/17/2012 10:00	Leading Indicators	JAN	0.50%	0.40%

Source: Bloomberg

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this newsletter (article) (including the investments and/or investment strategies recommended or undertaken by Excelsia, Inc.), will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter (article) serves as the receipt of, or as a substitute for, personalized investment advice from Excelsia, Inc. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request.