Vorpahl Wing Securities, Inc.

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Vorpahl Wing Securities
505 W. Riverside Ave., Ste 205
Spokane, WA 99201
509-747-1749

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Special Edition

The Top 10 Economic & Investment Predictions for 2012

The Investment Policy Committee

The top 10 investment themes for 2012 were compiled by the Investment Policy Committee (IPC)—a group comprised of the top financial consultants at Vorpahl Wing Securities. The IPC meets twice a month to discuss and approve sound investment advice and appropriate investment vehicles for our VWS client base. We discuss such topics as macroeconomic thoughts, theories, and trends and how these trends relate to the markets on a short-, medium-, and long-term basis. We also discuss current geopolitical events and how we think such events will affect the markets.

Executive Summary

We expect continued volatility in the markets with a trading range somewhere between 12,400 on the low end and 14,000 on the high end. We also expect interest rates to remain flat, coupled with slow growth and a slightly positive GDP. We believe the housing market will stabilize and show small signs of recovery. The IPC does not see much change in the unemployment rate, which hovers around the 9% range. We also believe that the driving forces for 2012 will probably be emerging markets, fixed income, and dividend-paying stocks.

The Political Arena

Everyone is an "expert" when it comes to politics, and there are plenty of political junkies offering their opinion. However, we believe that the Misery Index (MI) will hold true once again. The MI is a simple calculation: Unemployment Rate + Inflation Rate = MI.

The MI currently stands at 12%. When President Ford lost his re-election bid, the MI equaled 13.5%. President Carter lost his re-election bid when the MI was 20.76%, and George Bush, Sr.'s MI equaled 10.52% when he lost his re-election bid. Bush, Jr. lost his re-election bid when the MI stood at 10.52%, and when President Obama took office, the MI was at 8.92%.

Of course, the MI is not a steadfast rule, but it is an interesting statistic.

Here is another fascinating statistic: Every fourth year in the presidential cycle dating back to 1948—with two exceptions—the stock market had a positive return. The median return during these years was 6.7%.

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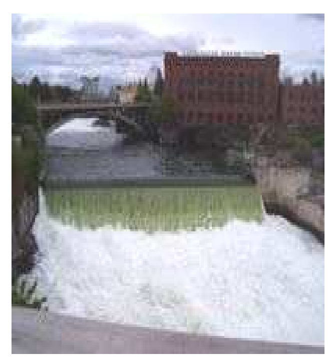
Spokane Markets

Dr. Grant D. Forsyth, a professor of economics at Eastern Washington University (and who served on the Mayoral and Governor's economic advisory committee in 2011), believes Spokane can expect more of the same in employment rates. Unemployment should stay above 8% with unemployment growing among the younger generation. There has been no significant job growth in the Spokane region since 2007, as well as no significant income growth. Real estate should also remain the same because of excess inventory and slightly declining prices. Dr. Grant's other predictions include: personal income growth around 0.5%; nonfarm employment growth at 0.5%; and existing home price growth between 8 and 10%. Spokane taxable sales growth will remain flat.

The good news for the region is that Trader Joe's and Caterpillar came to town. Also, Spokane's new administration is more business friendly and can perhaps bring positive changes to these numbers; however, this will take some time.



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Gross Domestic Product (GDP)

Arguably, the largest indicator of an economy's current status is the amount of goods and services it produces. A variety of sources predict GDP as follows:

Dr. Bob, Chief Investment Strategist at Hartford, says GDP will come in just below 2% but with no recession. *Fidelity* believes the GDP will be low for the next few years with the possibility of shallow recessions. *The Economist* (January 7 issue) predicts a GDP range between 1.3% and 2.6% with an average of 2%. A quote from the January 2012 issue of *Pioneer Perspectives* 2012 Economic and Market Outlook states, "We believe U.S. GDP will experience moderate growth of over 2% in 2012 - consistent with slow, protracted recoveries from 'balance sheet' caused recessions."

The IPC's GDP prediction for 2012 is around 2 to 2.5%.

The Top Asset Classes

One asset class we think will perform well in 2012 will be large-cap, dividend paying stocks. These stocks have a tendency to do well in volatile markets and were some of the top performers in 2011. Since we think the markets will continue to be volatile in 2012, we believe these stocks will continue to outperform.

On the fixed income side, we see municipal bonds performing well, and with states being forced to balance their budgets, default rates will be on the low side. We also believe high-yield bonds will continue to perform well since their dividend yield will keep their prices buoyant. We also think international bonds will offer above average returns. Because of the problems in Europe, high-bond outflows exceeded inflows in mid-2011. We see investors increasing their appetite for this asset class as prices have rebounded and yields offer a decent risk/reward ratio.

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Interest Rates and the Strength (Weakness?) of the Greenback

In the year 2011, the U.S. dollar showed surprising strength, mostly as a result of weaker currencies in other countries. So the $ was still considered the safe haven. Although the $ will eventually weaken due to massive budget deficits and climbing interest rates, we see it already weakening slightly in 2012; however, it will remain, the currency of choice as back up if other foreign countries fail to balance their budgets or show signs of weaker economic activity.

Interest rates should remain low, especially since the Federal Reserve Chairman, Ben Bernanke, has indicated he will not raise rates until 2013. As long as inflation stays in check there will be no reason to raise the rates anytime soon. However, the rates in emerging markets are slowly declining as they move into a monetary easing mode.

China's inflation has cooled from mid 2011, lowering their reserve requirements to 0.5%. They have not yet reduced rates.

Energy

Oil will continue to be in demand, especially for emerging market economies. With the discovery of new drilling techniques, natural gas will continue to move toward replacing coal as the main source of electricity generation. Nuclear power, we think, is a sleeping giant. In spite of negative implications with nuclear, we see nuclear power as being a major source of electricity generation. However, this sector will take years to develop.

Outperforming Sectors

Energy, real estate, basic materials, and commodities will continue to be in demand. Real estate is showing signs of recovery, especially selective commercial real estate, and may outperform as developers buy properties at discounted prices. We think the housing market has reached bottom or is close to bottom in many areas of the country, and because of this, we see the housing market making a steady recovery. As the world economy recovers and demand increases, we see industrials as a necessary sector.

Commodities

Commodities are bulk goods and raw materials such as grains, metals, livestock, oil, cotton, coffee, sugar, and cocoa that are used to produce consumer products. The emerging world economies are in the process of creating a middle class, and we think this is causing the commodities sector to outperform. Although commodities prices dropped in the second half of 2011, we see a recovery in this sector coinciding with the rise of the middle class.

Market Predictions

We believe the market—although volatile—will see a positive return stemming from a low interest rate environment, slow but progressive growth, a fourth year presidential cycle, and strong corporate earnings. From a 1.5% on the low side to 14% on the high side, this would put the DOW around 12,400 to 14,000.

International & Emerging Markets

Emerging markets, such as China and India, are growing with a GDP that would make U.S. politicians jealous. In 2011, India and China recorded GDPs of 6.9% and 8.9% respectively. These emerging markets are experiencing a middle class explosion and demand for goods and services is rising. This growth should bode well for these emerging markets.

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Investment Advice for Every Generation

Vorpahl Wing Securities   505 W. Riverside, Ste 205   Spokane, WA 99201
Cell: (509) 590-7156   (509) 747-1749

E-mail Dennis Roginski at denniscr@vorpahlwing.com
E-mail Jon Strine at jon@vorpahlwing.com
E-mail Tim Vorpahl at vorpahlt@vorpahlwing.com

Visit our website at www.vorpahlwing.com