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MARKET COMMENTARY January 30, 2013

Dow Jones Industrial Avg.	**13,104.14**	**Standard and Poor's 500**	**1426.19**
2012(YTD) +7.3%	4th Qtr. -2.48%	2012(YTD) +13.4%	4th Qtr. -1.0%

A Clear Direction – "The commitments we make to each other through Medicare and Medicaid and Social Security, these things do not sap our initiative, they strengthen us. They do not make us a nation of takers; they free us to take the risks that make this country great." - President Barack Obama's Second Inaugural Address

Gantlet Thrown Down – President Obama launched his second term yesterday with a clearly partisan inauguration speech, which was designed to appeal to his liberal supporters. It will also increase the resolve of his conservative opponents. Will even greater polarization be the result? Although many of us bristle at the implications of the phrase "a nation of takers", we realize Democrats have successfully hung it around the necks of Republicans like an albatross. On the other hand, President Obama and the Democrats try to pretend the growing, yet unsustainable burden of Medicare, Medicaid, and Social Security "free us to take the risks that make this country great." Sadly it is a cruel hoax on recipients and taxpayers alike. The benefits promised far exceed the revenues being raised to support them. Nevertheless the President is convinced he can persuade the majority he has defined the proper course for the country. At stake is the battle for Congressional control in two years and the potential of eliminating any legislative opposition to his grand vision. Rather than attempt to reach common ground with the Republicans in the House, he has interpreted his election victory as an endorsement of his policies. Although President Obama won the electoral vote in convincing fashion, he won a scant majority (i.e., 51%) of the popular vote. He apparently believes he can neutralize the Republican party and galvanize the disparate Democrat interest groups by proposing a number of high-profile progressive initiatives, yet it is hard to imagine he will be able to persuade both houses of Congress to pass them. He is willing to stake his legacy and the future influence of his party on issues that he did not emphasize during the campaign. The President has chosen to minimize the pocketbook issues that were foremost on the minds of a majority of voters during the campaign. Sadly, his address was a call to arms for both parties. Men and women to the ramparts! Wait 'til you see the whites of their eyes! His choice of direction can be expected to return Washington to its natural state of political bickering and partisanship. No "Forward" there.

What Economy? What Deficit? During the Presidential campaign and the accompanying debates considerable time was devoted to defining the candidates' positions on jobs, economic growth, taxes, and deficits, yet the President gave only a slight nod to these vexing economic issues during his address. He cannot simply pass these thorny issues on to a divided Congress, instead he must provide some direction that will lead this nation out of the fiscal morass in which it is stuck. In short, he must lead. Surely, the President realizes the hazards of borrowing forty cents of every dollar spent from foreign countries is a recipe for future disaster, yet he has made it abundantly clear he has high aspirations for the country in the fields of climate change, education, transportation and immigration. His challenge in this age of trillion dollar deficits is how to fund his new initiatives without exacerbating an already woefully deficient budget. Now that President Obama has succeeded in increasing the contribution of the "One Percenters", where will he turn his focus next? Five percenters? Ten percenters? Fill in a number. How will the country ever achieve a sensible budget when our leader only presents a long list of new initiatives with no hope of being able to pay for them, and he does not even seriously consider the need to reduce the current yawning deficit. Closer to home, Governor Deval Patrick has proposed raising various Massachusetts taxes by more than a billion dollars and has coupled it with a laundry list of "investments" including education and transportation. In addition, he is asking for $9.3 billion over 10 years to bring the existing infrastructure into good repair, included in that number is $1.8 billion to initiate rail service from Boston to New Bedford/ Fall River. Is anybody else thinking Big Dig II?

There is some encouraging news for the President and the country as he begins his second term. The economy does appear to be maintaining a modest growth track. Employment has gradually improved, however the pace is well short of previous recoveries. Housing and construction have finally exited their doldrums. Real estate sales activity has improved in many areas of the country and there is evidence of scattered pricing gains once again. Auto sales have rebounded smartly due in large part to the advanced age of the cars on the road. Low interest rates make it easier for the average consumer to make the decision to upgrade her/his vehicle. Another major plus is the meaningful reduction in consumer debt loads. Coupled with that is a dramatic reduction in corporate debt expense attributable to the significant re-financing of corporate debt. All that is missing is similar efforts by our federal, state and local governments.

A Brighter Investment Horizon? Stock market sentiment worldwide has improved considerably from a year ago. Much of the improvement is attributable to positive results for 2012 in many markets, including the United States. Further evidence of this trend is the S&P 500's impressive start to the new year. This has been the strongest January performance in sixteen years. What can halt this positive momentum? Three lingering concerns are political posturing in Washington, a pause in economic growth, and an unforeseen international crisis. A practical hurdle to further stock gains is valuation. Analysts are predicting a mid-single digit advance for earnings this year, yet stocks are eleven percent higher than they were in early November. Caution is advised.

Investors should be truly wary of the bond market. There are early signs the thirty year bond rally has come to an end. Bond participants pay close attention to the yield on the ten year U.S. Treasury Note as a sign of the direction of longer-term interest rates and of the intentions of the Federal Reserve Bank and its Chairman Ben Bernanke. As recently as July 24 of last year, the ten year note hit a record low of 1.44%. Today it passed 2.0% for the first time since April 18, 2012. If rates have bottomed, investors must examine and closely monitor their fixed income investments, particularly those with the longest maturities. These may be individual bond holdings, preferred stocks or bond funds. As interest rates rise, the principal value of your fixed income investments will fall by an amount greater than the income you earn. To protect your principal, you must sell your long-term obligations, and purchase shorter ones. It is important to replace them with discrete maturities of no more than two or three years. Safety of principal will be achieved at the cost of lower income. As interest rates increase to the 4-5% range, some investors will begin to withdraw from stocks to again seek the safety and security of bonds, Certificates of Deposit, and even money market funds.

Around the Office – Each year at this time we offer you an updated copy of our Form ADV, Part 2, which we file with the Securities and Exchange Commission. For those of you looking forward to paying your taxes or receiving your refund, you will need to exert a little patience. Schwab has indicated they will be sending out the necessary tax information by the middle of February. Once you receive it, please contact us if you feel you are missing any information. Now is also a good time to arrange for a review of your account and plan for the year ahead. Given all the cold weather we have been experiencing, maybe Ground Hog Day will bring us more sun and a little more warmth. JML