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KEY TAKEAWAYS

- ⇒ Consumer buying remains solid
- ⇒ China manufacturing and Greece fiscal steps are major positives
- ⇒ How to play fiscal cliff and geopolitics
- ⇒ Equity fund outflows have been horrific but should slow
- ⇒ Watch out for your retirement accounts

KEY STATISTICS

Index	Close	YTD
DJIA	13026	6.6%
S&P 500	1416	12.6%
NASDAQ	3010	15.5%
Russell 2K	822	10.9%

(figures are rounded)

The GOOD...

There is a lot to like about the market and the economy, at least in certain segments. And, you don't have to be a glass half-full personality so see it.

Last week, the NASDAQ Composite and the Russell 2000 Index roared, again, while the increases in the DJIA and S&P 500 were more muted. Tis' the season...

Consumer appetites for automobiles remains brisk and the underlying strength in the space can be seen by the type and level of incentives some of the auto manufacturers are offering customers. This is not a major surprise given the historically high average age of the nation's cars on the road. The rise in used car prices in recent months and even narrow changes from new car sticker prices to sales prices are also indicative of strength. The need to buy more autos after Hurricane Sandy had an impact as well, but the sector has been strong since February.

The power of the online buyer is really taking shape as well. Retailers are finding consumers would rather buy online than visit stores, no matter how much the stores entice them to do both. Moreover, the appetite for electronics is strong, and inventory of some of the most popular items remain hard to find, at any price.

Which brings us to what could be a very good sign for tech stocks. While U.S. manufacturing growth remains anemic, a major gauge in China hit a 7-month high. This bodes well for stocks with exposure (i.e., employees and sales) in Asia. Plus, there may be some daylight on the European front with Greece contemplating a bond buyback and Germany considering a write-off of some of Greece's debt.

These are all positive signs and catalysts for opportunistic investors.



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THE BAD...

While we do in fact have semi-rose-colored glasses, we take a pragmatic view of the market as well.

We anticipate market and small stock gains this month, but investors should be prepared for volatility and market whipsaws as positive and negative fiscal cliff comments and stories rear their ugly heads. We would use any big or consecutive daily drops in the market as a small stock buying opportunity.

Let's be real. The politicians are morons and can't be trusted but they are not suicidal. Some semblance of an agreement will be ironed out that will not be met with great excitement. Still, a relief rally should occur once a resolution is locked away. We are not smart enough to forecast what it would look like and are concerned that we will not look upon it too favorably. Nonetheless, what is most important is that this barrier is lifted and we get on with it so we can focus on other issues.

We have a pause in the Middle East violence and that is always a good thing. Investors should still hold onto oil and gold, as these commodities should continue to do well, especially if violence breaks out again.

And, that is a likely event, as we all know.

What amazes me about this year's rally is the investor sentiment and investor actions/reactions. For example, it seems counter-intuitive that we should be up this year when considering how much money each month is taken out of equity mutual funds. Year-to-date through last week, domestic equity funds had outflows of over \$130 billion. The "best" month has been February, where only \$1.5 billion in outflows were recorded. Amazingly, there has not been a month with positive inflows since April 2011. During months when we have had smaller outflows, the market has done well, for the most part. Given the massive selling since August (\$69 billion), it looks like we are about to moderate on that front for the remainder of December and the early part of next year, which is a seasonal phenomenon. This data is a great lagging indicator but can be used as a leading indicator to a degree as well.

The Investment Company Institute, which tabulates this data, released an interesting survey which could show a changing tide of sentiment. The percentage of retail mutual fund investors under 35 willing to take on higher risk is now higher than in 2008, before the big financial crisis. Investors over 65 showed a similar percentage return. Still, the percentage of investors 35-64 willing to take on more risk, which own the bulk of these assets, is still below 2008 levels. For a sustained rally to occur, we need this group to add on more risk.

THE WRONG

I try my best not to get political. It is not easy. But, for those of you not familiar with the potential changes to 401(k) plans and IRAs, listen up, as it is exceedingly important not to just the stock market but your net worth. Here is an excerpt from a story on this scary topic.

“The ever expanding debate on averting financial consequences in early 2013 has refocused attention on concerns that the coveted 401 k plan and IRAs, long considered the last bastions of private retirement savings which replaced pensions for most working Americans may be tapped. *The plans may be slated for*



dramatic changes ranging from limiting deductions, to retroactive taxation and to possibly include a nationalization scheme by imposing government mandated plans on employers with savings allocated exclusively to Treasury bonds. “

This would affect roughly 9 trillion in assets. Criminal. After all, the whole idea behind these plans are that hey are tax-deferred and to be used as a tool for retirement savings by benefiting from the tax deferral characteristics.

Check out this site: www.savemy401k.com for more

information.

Last week, we highlighted Knight Capital (NYSE—KCG) noting that it appeared to be a slam-dunk it would be acquired for \$3.30—3.60. It looks like it will be \$3.50 per share (cash and stock.) We hope you stepped in and grabbed some early, as it was an easy 20-30%. Hopefully, we will have more for your before year-end.

Until next week....



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