

## Dear Ladies & Gentlemen,

Well, I'm off and running with this new format, although I expect to receive many more constructive comments that will drive changes in the near future. One of the first comments (thanks Mr. D!) recommended that I *briefly* summarize the week right in this first box, *than* start on the details of the week. I like that idea, so here goes...

**Summary.** This past week was characterized by holiday-like light volume that just barely nudged the market into positive territory as of *Thursday*, up .5% (+7 points) from last Friday's 1,345 close on the S&P 500. Then Friday news broke that Greece was having trouble approving the strict measures demanded from the EU to get their bailout. All of a sudden, the specter of a Greek default loomed again. S&P added fuel Friday by downgrading the credit rating of 34 Italian banks and China reported trade data and loan demand data that was quite weak in January. After a near straight-line run of +16% since Thanksgiving, that was all the market needed for a little well-deserved breather Friday, although the market did close well of its low of the day.

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## Topic of the Week: Asset Allocation, Part II

I spent a fair amount of space dedicated to the Asset Allocation tables on Page 3 last week, yet I know questions remain. Why kick off this weekly missive with so much time and ink spent on this topic?

Simply, together as a team, this is the **single most important decision we make with your investments.**

If we can get *the timing* of your asset allocation *close* (we don't have to be perfect), that will determine the lion's share of your return. In fact, a well known study found that 90%+ of the **variation** in total return is achieved by getting asset allocation correct, *at the correct time*. You know the cliché: **Timing is everything!** No truer words are spoken regarding investing. **Therefore, the first question is not whether to buy GE or Caterpillar, or should you chase the Facebook IPO; rather, it is:**

**Given economic trends balanced by your own goals and risk tolerance...should you be overweight in stocks or should you have more bonds or real estate or cash (or gold, or**

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## INDEX & ASSET SUMMARY (WEEK OF 2/6 -1/10)

Index	Weekly Change	Week	YTD	Note
S&P 500	-2.3 @ 1,342.6	-0.17%	<b>+6.76%</b>	Sparse economic data capped by reawakening of Greek debt crisis
WTI Oil	+\$1.15 @ \$98.95/Bbl	+1.2%	NM	Slack demand, robust supply, but Iran/Israel keeping prices elevated
Gold	-\$5.40 @ \$1,723.20/oz	-0.3%	<b>+9.98%</b>	2 <sup>nd</sup> fractional weekly decline; some profit-taking after 11% jump
Real Estate (ICF)	-\$1.67 @ \$74.69	-2.2%	+6.37%	Interest rate risk takes a nibble out of value, or just profit-taking...
10yr Treasury Yld	+7bps @ 1.99%	+3.65%	+5.85%	Selling pressure drove yields higher, then -5bps Friday due to Greece
US Dollar (DXY)	+0.06 @ 79.00	NM	-1.4%	Slight decline this week with bounce Friday, again due to Greece
VIX (Volatility)	<b>+3.69 @ 20.79</b>	<b>+21.6%</b>	<b>-11.1%</b>	<b>60% of jump was Friday;</b> not a concern up to ~23-25 range
Italian 10yr Bonds	<b>-9.4bps @ 5.578%</b>	<b>-1.6%</b>	<b>-19.1%</b>	+11bps Friday, but yields still down for the week. Monday will tell...

## **Hot This Week**

### **Weekly Claims for First Time Unemployment Benefits**

**(Jobless Claims)** came in at 358,000 vs. the 373,000 expected Thursday. While it would be easy to view the report as an aberration, these weekly reports have exhibited a trend of **accelerating** improvement. Given seasonal post-holiday lay-offs, since many companies allow employees to separate after the holidays, January/early February is typically quite weak. Temporary hires for the holidays are not counted when hired, and aren't counted when let go. After a stronger than expected Jobs Report last Friday and ISM/PMI data that reflects strength in employment, there is a hint of confidence returning to the labor force (just a hint).

**Friday's Consumer Sentiment** report, the first of two for February from the University of Michigan, came in slightly **weaker** than expected at 72.5 vs. 74.3 estimated, and lower than the final January reading at 75.0. Higher fuel prices and difficulty finding jobs are still the two main culprits constraining confidence.

**The negative overnight and early-morning news from Europe and Asia caught us in the middle on Friday.** As summarized above, the news from Greece wasn't good as the Prime Minister struggled to form a coalition to support the EU's strict austerity measures. Gaining agreement from multiple party leaders is the first step; otherwise, putting it to a Parliamentary vote is a waste of time. He failed to do that Thursday and early Friday, weighing on the market since it must go before Parliament on Sunday (US time). That weighed heavily on the market. However, after the close of markets, Bloomberg reported that the PM was successful in gaining the votes of the party leaders. Now, it's up to Parliament. In the meantime, the austerity measures are causing strikes and demonstrations around the country.

### **China reported that trade was down significantly from last month, adding fuel to the European debt situation.**

Here's the rundown: Imports down 15%, Exports down 0.5%, Loan Demand at a 5 year low in January, and Money Supply growth at a 10+ year low. Not much good news in the headlines! A little digging deeper finds that Money Supply growth was *still +12% and that its Trade Surplus hit a 6 month high at \$27.3 billion!* The headlines weighed heavily on commodity and industrial stocks today, but while a little soft, the tertiary data reveal a still-very-healthy economy.

## **Hot Next Week**

### **The Sunday Greek vote will set the tone for Monday here.**

Given the late breaking news Friday evening that the Greek PM did gain consent of party leaders, plus knowing the ramifications of failure, I suggest they will get it done. I hope so, since there is nothing on the calendar Monday here with any potential to offset bad news from Europe.

**Tuesday's Retail Sales report for January will be quite interesting.** While December's tally was weak at +0.1% and -0.2% x-autos, the expectation for +0.8% and +0.5% x-autos is a fairly high bar. A positive indicator, last week's +4.2% January Chain Store Sales report, together with reported growth in gift card sales to an all-time high, may just be enough to carry the month.

**Wednesday** brings a full slate:

1. **Feb Empire States Mfg Index: +14.0 est, +13.5 last**
2. **Jan Industrial Production: +0.6% est, +0.4% last**
3. **Jan Capacity Utilization: 78.6% est, 78.1% last**
4. **Feb NAHB Housing Market Index: 26 est, 25 last**

**Thursday** is even better:

1. **Initial Jobless Claims: 365k est, 358k this week**
2. **Jan Housing Starts: 670k est, 657k last**
3. **Jan Building Permits: 675k est, 679k last**
4. **Jan PPI: +0.3% est, -0.1% last**
5. **Jan Core PPI: +0.1%, +0.3% last**
6. **Feb Philly Fed Index: 10.0 est, 7.3 last**

**Friday brings CPI data and Leading Economic Indicators to finish off the very busy week.**

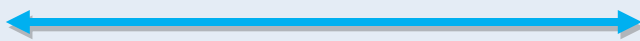
**Earnings will continue with Deere(DE), Goldcorp(GG), and Devon Energy(DVN) on Wednesday, General Motors(GM) on Thursday, and Campbell's Soup(CPB) and HJ Heinz(HNZ) on Friday.**

*In short, this coming week will be nothing like last week, which was akin to watching the grass grow (until Friday). We have something for everyone...European decisions, housing numbers here galore, earnings, and the regional manufacturing data. Should be a fun week!*

**Sean T. Moore**  
Senior Portfolio Manager  
Labrum Capital Advisors, LLC

**STRATEGIC-BASELINE****ASSET ALLOCATIONS**

	II	IV	VI
CASH	10%	5%	0%
EQUITY	30%	45%	70%
DEBT	55%	40%	20%
PRECIOUS METALS	0%	5%	5%
REAL ESTATE	5%	5%	5%
ALTERNATIVE INVESTMENTS	0%	0%	0%

**TACTICAL****ASSET ALLOCATIONS**

	II	IV	VI
CASH	15%	5%	0%
EQUITY	35%	50%	75%
DEBT	42%	35%	10%
PRECIOUS METALS	0%	0%	5%
REAL ESTATE	8%	10%	10%
ALTERNATIVE INVESTMENTS	0%	0%	0%

CHANGES ARE HIGHLIGHTED:

RED = ↓ IN % &amp; GREEN = ↑ IN %

**CALENDAR OF EVENTS****INVESTMENT SEMINAR**PLACE: LCA OFFICE @ 29995 TECHNOLOGY DR, SUITE 100  
MURRIETA, CALIFORNIA 92563DATE & TIME: THURSDAY, 23 FEBRUARY @ 2:00PM OR  
THURSDAY, 23 FEBRUARY @ 6:30PM

Topic(s): Global Economic Update &amp; 2012 Outlook

Please RSVP to Maria @ 951-290-5020 if you plan to attend!

*commodities, etc.)?*

*Think of it this way:* If you were overweight in stocks during the Technology boom of the late '90's and saw the frothiness (crazy-high stock prices) as a *bad thing*, what would have happened had you just closed your eyes and sold a whole bunch of stocks in late '99-mid '00? Answer: You would have missed *most* of a 50% decline in the stock market (80% decline in the tech-heavy NASDAQ index).

To further this hypothetical, what if you had taken your profits from stocks and, looking about, saw that the real estate market hadn't really gone anywhere for 10 years? You didn't have to be a real estate pro did you? You could have bought just about *any* piece of real estate or *any* real estate investment trust and by 2005 you would have doubled your money in several regions.

**The point is that the most important part of allocating assets is not picking *which* house to buy if real estate is going up or *which* stock to buy if the stock market's going up** (or which one to sell if the one of those markets is going down). ***In general, the BIG question is: IN or OUT?***

Now, if you're familiar with real estate, you're probably thinking I'm full of you-know-what because there **CAN BE** a big difference from one piece of real estate to another. Of course! Similarly, anyone who has owned both GE and Caterpillar (both are Industrials) over the past three years knows there's a HUGE difference in the total returns of the two, so just like picking real estate, "stock-picking" does make a difference. *But make no mistake, if you got scared by the events of '08/early '09 and decided to stay out of the market, the quadruple in Caterpillar stock price vs. double in GE makes no difference since you missed both.*

By '05/early '06, the real estate market had a full head of froth. What if you decided to take some profits if, for instance, you owned two or three rental properties? If you were not sure, maybe you would just sell one and take profits. If confident, maybe you would sell two and bank the proceeds (minus a nice check to Uncle Sam). Now don't go thinking I'm implying you should sell **everything**, although, admittedly, after the past fifteen

years of asset class booms and busts, I personally believe otherwise in certain cases. The irrefutable fact, however, is that at some point, you have to make a bold decision and change your asset allocation in a **meaningful** way. *None of this picking around the edges and reducing stocks 5 or 10%, or selling one property if you own eight. No putting 10-20% to work while sitting in cash at 50% of your portfolio while you watch the market double.*

Enough pontificating...you get the two main points:

1. Timing is everything.
2. Make **decisive** asset allocation changes.

Now three quick points to support the two above:

3. **Get out of your comfort zone. Investing is *not* like it used to be 20+ years ago. “Excess” may be a way of life in investing given the speed of information and capital along with cheap transaction costs. More next week on this topic.**
4. **Like horse shoes and hand grenades, *close counts...you don’t have to pick the exact top to get out or the bottom to significantly change your asset allocation. A little early getting out is better, especially where liquidity is a concern (real estate).***
5. **Get used to putting a “smiley face” on the tax checks. In short, don’t let the tax tail wag the dog.**

**Volatility and Investor Goals, Part II. Last week, I touched on the different risk/volatility models listed in the tables on Page 3: (II = Conservative, IV = Moderate, VI = Aggressive) and/or different financial goals (II = Income, III = Growth & Income, VI = Growth). Here is a little more details explanation:**

#### **I. Capital Preservation**

- a. Goal: *Inflation-adjusted* preservation of capital with **no income provided or growth expected.**
- b. Classical Allocation: 10% Cash, 10% Equity, 80% Debt
- c. Note: After a 30yr bull market in bonds and the potential for higher inflation, I strongly suggest this, along with 100% debt portfolios, will *not* meet the stated goal of protecting principal over the next decade, if not two.

#### **II. Income (Conservative)**

- a. Goal: *Inflation-adjusted* income distribution, typically requiring >4%/year
- b. Classical Allocation: 10% Cash, 20% Equity, 70% Debt
- c. Note: Similar risks to above given high-grade debt risks commensurate with record-low yields

#### **III. Income & Growth**

- a. Goal: *Inflation-adjusted* income distribution, typically requiring 3-4%/year, plus growth 1-2%/year
- b. Classical Allocation: 10% Cash, 35% Equity, 55% Debt
- c. Note: Given risks to debt, the growth goal may not be achievable.

#### **IV. Growth & Income (Moderate)**

- a. Goal: *Inflation-adjusted* income distribution, typically requiring 2-3%/year, plus growth 2-3%/year
- b. Classical Allocation: 10% Cash, 45% Equity, 45% Debt
- c. Note: Often called “balanced” because the risks are just that.

#### **V. Conservative Growth**

- a. Goal: Growth 4-6%/year with minimal (<2%/yr) income requirements.
- b. Classical Allocation: 10% Cash, 55% Equity, 35% Debt
- c. Note: There is a need for modest growth, but only moderate tolerance for volatility.

#### **VI. Growth (Aggressive)**

- a. Goal: Growth 7-9%/year with no income requirements.
- b. Classical Allocation: 5% Cash, 80% Equity, 15% Debt
- c. Note: To meet life goals, must grow the assets and able to withstand considerable volatility.

#### **VII. Aggressive Growth**

- a. Goal: Growth  $\geq 10\%$ /year with no income requirements.
- b. Classical Allocation: 0% Cash, 100% Equity, 0% Debt
- c. Note: To meet life goals, must grow the assets at above average rate and able to withstand significant volatility. No need for cash reserve. Some “speculation” may be included on case-by-case basis.

**I hope this helps clear up additional asset allocation questions.** Next week, I’ll wrap up asset allocation with current risks to the above models.

## TECH GEEK CORNER



### SUMMARY OF TECHNICAL ANALYSIS

- Trend:** **Bullish.** This week did not change the dominant trend.
- Resistance:** 1,350 – 1,370 (29 Apr – 2 May 2011 high)
- Support:** 1,300 provides minimal psychological support, then 1,270 – 1,285 (50dma now at 1,282)
- Volume:** **Bearish.**
- Summary:** Friday, importantly, was also a light-volume day, in spite of the market being down 147 points at its low ahead of a weekend with a Greek vote on Sunday. The total volume on the NYSE was 3.8bn shares, below average volume of 4.2bn and well below any measure of “robust” volume (4.6bn+). **Volatility** as measured by the **VIX** jumped sharply; however, its moves are exacerbated by light volume.

As I mentioned last week, this market probability will not just “cruise” up through that difficult resistance level posed by 1,350-1,370.

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