The Carnegie Counselor

THE CARNEGIE INVESTMENT COUNSEL NEWSLETTER FOURTH QUARTER 2010

Running with the Bulls

Before we look ahead, a quick recap is in order on the year just ended. By most measures it was a satisfying year for investors with solid returns of 15 percent for the S&P 500 Index and a respectable 6.5 percent return for the Barclay's Aggregate Bond Index.

These are close to the returns expected of stocks and bonds over the long-term, so it is quite dandy to actually receive what is expected. However, only with short memories would one conclude it was an easy year. The difference between the high and the low for the year was nearly a 25 percent swing for the stock market, and at the mid-year point the market was down five percent and confidence was not abundant. Every year there is volatility, though, and we aren't referring to just the "Flash Crash" that occurred last May. While it is easy to look at the final numbers and expect another positive year ahead, the markets are elastic and we are constantly concerned with what can derail the momentum in the future.

There is a long list of risks to the recovery including stubbornly high unemployment, fragile governmental finances, rising commodity prices, and a tattered U.S. real estate market. These anxieties mirror those of the late 1970's when the mood reflected the view that "good times would never return". The solution to these problems will be and has been economic growth. We view the current economic positives as overriding the negatives. These positives include continued monetary expansion in the U.S. and internationally, confirmation of the current tax structure, a balanced legislature, continued economic growth in the developing world, high corporate cash levels and overall tame inflation.

The coming year should be a positive period for investments in equities as long as we don't experience an event. Corporate earnings will be at record levels in 2011; the stock market remains 18 percent below the highs of 2007, despite the recent advance. The cash that is piling up in

In the news

Carnegie Exceeds $300 Million in Assets Managed

As of 12/31/2011, Carnegie Investment Counsel managed over $300 Million for clients. Carnegie would like to say **"Thank You"** to its clients and partners for continuing to entrust us to manage their investment assets.

Carnegie Invests in Technology

Carnegie continues to investment in research tools to help us manage client assets. We recently added ***Baseline*** from Thompson/Reuters, a robust tool to aid in security selection, valuation and portfolio diagnostics.

corporate accounts is being funneled into dividends, share buybacks or acquisitions. All of these factors are positive for shareholders. Our goal is to have you participate in the appreciation of share prices resulting from the record corporate profits. Our clients are already benefiting; however, we expect participation to increase. Owning leading companies with rising revenues in growing markets will pay dividends. We have a high threshold for the quality of companies deemed suitable for our clients' capital. In the past this restraint has proved successful, so we are not in a rush to run with the new bulls that seem to arrive daily. Comparable to the sophomoric runners who run annually in Pamplona, eventually someone in front gets skewered. There is no need to run in front of the bulls; you can still participate in the advance while running alongside the pack. We'll expand the commitment to equities with the discipline to which our clients have grown accustomed, in measured steps.

For several quarters we have discussed the problems of the bond market when prices begin to drop. It appears the tipping point may have been in November when the Federal Reserve announced a second round of Quantitative Easing, or QE2 as it is dubbed. With the Fed buying bonds, the strategy was to maintain low rates of interest thereby stimulating the economy. However, it appears to be backfiring as the market perceives the government unwilling to control spending and the deficit of our great nation is growing. Higher commodity prices coupled with the looming debt have driven yields higher and stoked inflation fears. In November, for the first time in two years, investors withdrew more dollars from bond funds than they invested and some of these assets are going back into stocks. The net withdrawal out of bond funds is likely the beginning of a long trend, and now that the exit doors are open, we expect to see the momentum pick up. While this will hurt bond mutual funds in share price, the impact on individual bonds should be limited. Municipal bond funds were particularly hit hard in December as prices on tax-free bonds dropped with debt worries. We still expect to hold every bond to maturity and receive the par value in return. We use bonds to generate income or to provide stability on a portfolio, not to add risk. Buying bond funds in a rising interest rate period or participating in the "Pamplona" race, eventually leads to someone being gored.

We'll expand the commitment to equities with the discipline to which our clients have grown accustomed, in measured steps.

As a truly independent investment management and planning firm, Carnegie Investment Counsel has a rich history of providing careful and responsible management of your financial assets to reach your short and long-term goals.

For more info, contact:
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or
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As the snow and ice return to the shorelines of Lake Erie, please be confident that while we remain at the helm, we do so with an eye on the horizon, scanning for any icebergs that could cause havoc for our clients. Enjoy the New Year, we think you will.

Carnegie
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since 1974

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