"Our Clients' Past Successes are Not Necessarily Indicative of Future Successes."

Stamper Capital & Investments, Inc.

"Focusing on Upside Potential and Downside Protection Since 1995."

January 2012 Market Commentary

(Note: Please see our previous Annual Forecasts and our Blogs
for considerable background on our forecasts)

2011 Review and 2012 Forecasts

First, a table of what happened in 2011:

2011 Total Returns	Index	Rebound Top from 2009 bottom	From Rebound Top to 12-31-11
-1.29%	Wilshire 5000	4-29-11	-9.0%
+2.12%	S&P 500	4-29-11	-7.8%
-4.19%	Russell 2000	4-29-11	-14.4%
+8.41%	Dow Jones Industrial	4-29-11	-4.63%
+0.01%	Dow Transports	7-7-11	-10.7%
-23.2%	KBW Bank Index ("BKX")	4-23-10	-24.8%
-8.29%	CRB Commodity Index	4-29-11	-16.8%
+5.12%	Oil	4-29-11	-13.0%
-10.61%	Silver	4-29-10	-39.0%
+9.24%	Gold	8-22-11	-17.3%
-16.12%	Copper	2-14-11	-21.3%
-1.5%	Case Shiller Housing Index	7-2010	-5.0%(through 10-31-11)
-3.07%	Philly Housing Index ("HGX")	4-23-10	-15.5%
+1.46%	U.S. Dollar	4-29-11 low	+9.9% from low to 12-31-11
	(Note: U.S. Dollar is moving inversely to other markets)		

Equities - While the Dow Jones had a pretty good gain, the broadest index, the Wilshire 5000, was negative (-1.29%) as were others, with the S&P 500 returning just +2.12%. So, looking at the annual returns, it looks like little was going on.

However, beneath the surface may have been very important events. The most important event we see is that apparently, most of the markets peaked around end of April 2011 – April 29, 2011 to be exact as you can see from the above chart – these are the high peaks from the early 2009 super low of the financial meltdown The equity indices then dropped from April 2011 into substantial lows around October 4th, 2011. Importantly, the October 2011 lows took prices all the way back to levels of early 2010 – this was a

substantial drop. Also, important are the significant rebounds from those October 2011 lows – the rebounds took prices back up towards the rebound peak highs of April 2011 – however, with most indices noticeably below those April 2011 peak rebound highs. Thus, the highs from the rebound from the early 2009 meltdown bottom were in April 2011 or earlier (see Banks and Housing, below). We believe the decline from the current rebound tops will be similar to 2008; so very significant, unfortunately.

Banks - In last year's forecast we speculated that the Index of Prices of the 24 Largest U.S. Banks (KBW Bank Index ("BKX")) had put in its final rebound top on 4-23-10. That top has held rather significantly. While it did rally from January 1, 2011 to February 11, 2011 by 6.55%, from that top (which was still 4% below the April 23, 2010 top) it fell dramatically by 39% to its October 3, 2011 bottom (one day before most other indices bottomed) before retracing about 28% of that drop into year end 2011. In last years' forecast, we said, "This index might just be "the leader" of the current topping process. With its rebound top in place and its lower highs and then subsequent drop, it seems to us that this index is being a good leader/model of the rest of the markets as they have followed its path at least so far. As for banks, we believe they will drop from their current rebound top similar to 2008 so that will be a doozy, unfortunately.

Commodities - Identical highs are in April 2011 for most commodities with Copper topping earlier and Gold topping later. Importantly, the CRB index of commodity prices peaked on April 29, 2011 and dropped 18% down to the end of 2011. Correspondingly, late April tops were registered in oil, and most impressively in silver which dropped from that top by 40% to the end of the year. Gold peaked significantly later on August 22, 2011 and dropped 17% to year end. Oil closed the year down 18% from its April 29, 2011 top; its path was very similar to stocks in that it put in a very significant low on October 4, 2011, down 33% from its April 2011 high before rebounding to year end and it was still 13% below its April 2011 high at year end. Thus, most commodities also put in their rebound tops from the 2009 meltdown lows on April 29, 2011 (earlier for Copper and later for Gold) and we think are putting in lower tops currently. We think the decline from the current tops will be similar to that of 2008, unfortunately.

Housing – As we forecasted last January, the top for S&P Case-Shiller Home Price Index (of all 20 metropolitan markets) of July 2010 stayed intact. Also, the Philadelphia Housing Index (of homebuilders, "HGX") put in a lower high on 2-17-2011, about 8% below its rebound high (from the 2009 bottom) on 4-23-10. Like other indices it is rebounding up towards its 2010 high and it may rise above it, but we find it unlikely to rise above its 2-17-10 rebound high. We believe it is more likely that its current rebound will be a second lower high. We expect the turn down will be similar to that of 2008, unfortunately.

U.S. Dollar – The model we've been using is that the U.S. dollar is moving inversely to most other markets, and it did so again in 2011. While most domestic markets put in highs (from 2009 crisis bottoms) on April 29, 2011, the U.S. dollar put in its lowest low from its 2009 crisis high) on the very same day! April 29, 2011 with a substantial rebound since then. We believe the U.S. Dollar will continue to perform inversely with

most other market indices (stocks, commodities, lower quality bonds, real estate) and, accordingly, put in a rally similar to 2008.

U.S. Treasuries –

Security	Yields 12/31/10	Yields 12/30/11	Change
3 MONTH	0.120	0.010	- 1 basis point
2 YEAR	0.593	0.239	- 35 basis points
5 YEAR	2.006	0.832	-117 basis points
10 YEAR	3.294	1.876	-142 basis points
30 YEAR	4.334	2.894	-144 basis points

Yields of the highest quality interest rates dropped fairly significantly (prices rose), but they did not take out their 2008 crisis lows.

Also, we must mention the U.S. Treasuries were downgraded from AAA to AA+ in August 2011 by S&P. As a side note, it is interesting that the Bloomberg Data System does not have an easy way to verify the ratings of U.S. treasuries as they do for other securities – it seems markets and systems were not designed for worst case scenarios.

We are not sure if Treasuries will see their yield drop below levels of 2008; however, we think they will likely, at least, get very close to those lows (high in prices) in a flight to quality if we are correct that prices of most other asset classes plummet in a manner similar to 2008.

Municipal Bonds – Most municipal bonds rallied sharply along with the U.S. Treasury market. Municipal bonds caught a bid as a place of "safety" where one could get at least some yield. Lack of supply also contributed to their strong performance. However, municipal bonds had a subtle deterioration versus U.S. Treasuries with municipal bond yields as a percent of U.S. Treasuries widening – basically, they underperformed U.S. Treasuries.

Importantly, while the overall municipal bond market rallied over the year, several municipal bond mutual funds that we follow as proxies for the market did not take out their 2010 price highs; some did not take out their 2010 price highs nor their higher 2009 price highs. Some have just barely surpassed their 2010 highs.

Other items of note in the muni market were the record amount of defaults. Defaults included Jefferson County, Alabama; its $3.14 billion in debt made it the largest municipal bankruptcy in U.S. history surpassing Orange County, California's 1994 bankruptcy. Another very large bankruptcy during 2011 was that of American Airlines which issued hundreds of millions of dollars of municipal bonds to back airport facilities. Technical defaults included several tobacco bond issuers who had to dip into their debt service reserve funds (that was the technical default) to service their debt as proceeds from cigarette sales slowed more than the models the bonds were issued based on had anticipated. There were also several high profile city bankruptcies.

A key of these events is that for the normal types of municipal issuers (cities, counties, water and sewer, etc. as opposed to Industrial Revenue Bond (IRB) issues like American Airlines), market participants are finding that the laws, solutions, and resolutions of these deficits are not straightforward at all. For example, the Jefferson County, Alabama bankruptcy involves the over-leveraging of its water and sewer system to pay for other services. It was unexpected by most participants that the municipal bond payments on a water and sewer system would be put on hold by the bankruptcy judge – this is a big deal! Of course, you know that we've been banging the drum that we are going into unexplored territory in the municipal bond and other markets as they were not firmly structured for worst case scenarios. The situation is similar to the bailouts of the financial crisis where all laws and precedents went out the door. In that situation, the largest banks and institutions with supposedly minimal guarantees received huge bailed outs. Those entities were very large and national in scope. Most municipalities are not national; accordingly, we believe ultimately they, generally, will not be accorded such generous treatment in similar events going forward.

Importantly, it is some what amazing to us to see people flocking to municipal bonds as a "safety haven." Of course, it is difficult to fault the general public when almost all muni market pundits are indicating muni's are as safe as Treasuries. Also, it is easy to get seduced when municipal yields compared to Treasury yields are relatively high on a pre-tax equivalent basis. We believe that while the cream of the crop should turn out to be safe, we would be very cautious owning anything but tip top tier bonds. Even so, if the market trades down along with stocks similar to 2008 as we are forecasting, liquidity in the municipal bond market will dry up (just like it did in 2008), likely pushing the prices of longer duration but still very high quality municipal bonds downward significantly and prices of lower quality bonds down much further. Also, in the 2008 downdraft, municipal bonds suffered few actual defaults; however, things are likely to be very different in this down-cycle. Many municipalities have tried to address their credit deterioration issues. However, most of those municipalities that have succeeded at all have only succeeding partially at best. All the rest of done essentially nothing. However, credit quality metrics of municipalities in general have gotten worse and worse even with the restructurings, unfortunately. Revenues have only partially rebounded and liabilities have continued to move up from their already unbelievably high levels while their investments have not kept pace (in part, because the bonds in their pension portfolios are rolling over at lower and lower interest rates) . We can understand why this is so – at this point, politically it is almost impossible to do a significant municipal restructuring unless there is a crisis – look at Jefferson County, Alabama – they even had years of crisis and still could not get it fixed without going into bankruptcy.

Thus, if we are correct on the markets and the economy in general going down similarly to 2008, we believe we will see an extreme increase in defaults and restructurings of municipalities' finances. In order to not make the mistakes Meredith Whitney made in her forecast, we want to be clear – defaults and restructurings include not only bond restructurings, but pension systems restructurings, employee and labor contract and salary restructurings, restructuring of unnecessary and very expensive layers of upper

management and their compensation packages, etc. And, we want to be clear that while we expect the downturn to start essentially now (or more correctly, to resume now) with the rest of the markets, the restructurings and defaults could take many years to be "official" and to be resolved.

Forecasts – Our long-standing, long term forecast since 2002 of the "Right-Tilted W" is still "on course." For a good review of it read our analysis, **'W'hat Goes Up Must Come Down: Stamper Capital & Investments Forecasts Become Reality** (published November 18, 2010, www.risk-adjusted.com). In that forecast, we speculated that the form of the markets would take the shape of a "W" tilted with the right lower than the left. 2000 was the top left of the W, the 2003 bottom was the first bottom, the rebound to 2006/2007 was the middle point of the W, and the drop down to a lower low (making it "right-titled") is currently in progress (although the 2009 already met the minimum condition). Going further, we believe the top was 2000, or 1998 if adjusted by inflation. We have referred a few times to an 18 year cycle which we believe is operable. Thus, we are looking for the ultimate low in either 2016 or 2018. Officially, we are forecasting the low in 2016 for equities and 2018 for real estate as it typically lags the stock market by eighteen months to two years. We have also said that while we will make these educated guesses of the timing and levels of the future major bottoms, we likely will not really know until we get there (obviously forecasting so far out in the future is subject to change), but we expect we will know in real time, just as we did at the late 2008 and early 2009 lows.

Shorter term - We believe the markets have been correcting the drop from the 2006/2007 bubble tops into the early 2009 bottoms by rising in significant and choppy fashion. We believe that correction (up) is over for some markets like bank stocks and housing which saw their highest peaks back in 2010. As for the others, we believe most of the index tops on April 29, 2011 (see Chart at top of page) as well as the U.S. dollar's bottom on that same day will hold; similarly for other tops during 2011 that we documented. Based on our long term forecasts, we continue to believe that the next large move will be down, unfortunately.

As mentioned previously, please review our previous Annual Forecasts and Blogs if you want to get considerable back ground information why we are making these forecasts.

Re-investment - Also, we want to add that we believe the effect of interest rates being so low for several years now is starting to take its toll. People on fixed income are now seeing a significant amount of their higher paying CD's and higher coupon bonds maturing/rolling over and being replaced at lower and lower interest rates. For example, what was a 5% Five Year T-Note in 2007 is maturing and is now being invested five years later into a new Five Year T-Note yielding only 80 basis points! On $100,000 the drop in interest income is from $5,000 per year previously down to a relatively minuscule $800 per year.

	2007	**2012**
5 year U.S. T-Note	5%	0.80%

Annual income on $100K	$5,000	$800

That is a huge drop; the new amount is a factor of 6.25x lower. As people’s fixed income assets roll over, t a certain point, if they do not lower what they spend on their life style, they will be consuming their principal. We believe this re-investment risk is being experienced on a worst case basis and will send more and more negative ripples through the economy over time and ultimately will negatively affect asset prices as well as putting pressure on other everyday prices. The situation is very unfortunate but I think it is best to be aware of it if you are not personally already.

Negative Sum Game & Deflation – Another point that we want to make, that we have made before, is that in a scenario like 2008, even if you lost say 5% on your investments, you are substantially ahead if everything else is down say 25% or 50% (as many investments were in 2008) and, it is a tax-free gain! I think it is a good idea to keep this perspective because in a 2008-type scenario, other than if you were “short” it was very difficult to not lose money on an absolute basis, but it was not that difficult to make money on a relative basis. If we have the second large decline that were are forecasting, we will likely be in a real deflation with prices of every-day items actually dropping this time – not just having price increases slowing down. In the situation of an across-the-board deflation, assets earning zero or more on an absolute basis will be large relative winners because the costs of everything will be dropping. It is painful to think about but we think it is very realistic as we deem the likelihood of an outright deflation a likely outcome, unfortunately. Better to be knowledgeable and safe than sorry.

As always, we at Stamper Capital will continue to focus on the upside potential and downside protection of the assets we manage.

Thank you for your patronage,
Stamper Capital & Investments, Inc.

Since 2001, “Safety” was our watchword for the 2000-2009 decade.
Unfortunately, “Safety” is still our watchword until we get to the final bottom, which we believe is still much lower.

(Posted January 25, 2012)

FOOTNOTES:

Stamper Capital Composite Return Calculation Footnote:
Returns are presented in United States Dollars. Composite returns are calculated monthly using a Monthly Discounting Model. No cash carve outs are made. Quarterly returns are time-weighted rates of return calculated by geometrically linking the composite’s monthly returns. Annual returns are time-weighted rates of return calculated by geometrically linking the composite’s quarterly returns. Gross Returns are after

transaction costs but are before management fees; Net Returns are after Stamper Capital management fees. Investment advisory fees will reduce client's returns. Fees are hypothetically taken out of non-fee paying accounts when reporting net-of-fee returns. Other costs reducing returns are custody account fees and possibly ticket charges, which can vary depending upon the custodian used. Also, see Disclaimer, below.

Morningstar & Lipper Total Returns Calculation Footnote:
Returns - Figures quoted are total returns calculated for the share class and time periods shown. Performance includes the reinvestment of income dividends and capital gains distributions. Performance does not reflect the deduction of taxes that a shareholder would pay on a fund distribution or the redemption of fund shares. Please go to Morningstar's and/or Lipper's website for more information.

Calculation of Risk-Adjusted Performance Returns Footnote:
Statistical Standard Deviation is the measure typically used, and we are using, as a proxy for risk. Standard Deviation is measured versus a composite's or competitor's own returns. Importantly, Standard Deviation is an attempt to measure risk that has been experienced; however, there may or may not be other risks that were taken on (by our clients or our competitor's clients, etc.) that were not experienced and/or that were not measured by Standard Deviation. Importantly, those risks will likely ultimately, at some time, be realized as we saw in the financial collapse of 2008. Stamper Capital's Upside Potential/Downside Protection Analysis and Implementation attempts to consider these risks and we believe is, in a large part, responsible for our historical outperformance during more unusually volatile periods. Of course, past performance is not necessarily and indication of future success.

Morningstar Risk-Adjusted Star Rating Footnote:
For each fund with at least a 3-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (includeing the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category reveive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. Please go to Morningstar's website for more information.

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