

BURKE LAWTON BREWER & BURKE

SERVING INVESTORS SINCE 1964

Client Briefing

DJIA 12702***NASDAQ 2766***S&P 500 1306

January 24, 2012

Dear Clients and Friends of BLBB,

For more than 40 years (since 1971!) we have written and sent a monthly economic update to our clients and other friends of our firm. This monthly “client briefing” is our way of letting you know what we think about recent economic and geo-political events and how we anticipate these events will impact US and global financial markets. Over the years, we have received many positive comments on our briefings. We believe it is a useful communication tool as it provides you with timely insight into our thought processes and our assessment of current events.

For the last 15 or so years, First Clearing, LLC, our primary custodian, has included our client briefing with the monthly account statements it mails to each of our clients. For those clients without an account at First Clearing, we have mailed out hard copies of our briefing each month or, more recently, emailed an electronic version of this document.

Starting about 2 years ago, we began to rely more heavily upon email as a way to quickly and efficiently disseminate timely information to our clients with minimal environmental impact. We also began posting each month’s briefing to our website (www.BLBB.com) as soon as it was published.

This week, we learned that First Clearing has changed its policy on including other materials with the monthly client statements they generate and mail. From this point forward, First Clearing will only accept our client briefing if we have the text to them at least 12 days before the end of the month. Unfortunately, this new requirement means our client briefing will be at least three weeks old by the time you receive it in the mail. Because this piece is intended to be an up-to-the-minute snapshot of current economic and financial market events, a three-plus week lag time between writing and delivery is unacceptable to us.

Accordingly, **we have decided to transition to an all-electronic version of our briefing.** Thus, **beginning with our February briefing, for every client for whom we have an email address, we will email the client briefing as soon as it is published. We will also post the briefing to our website at the same time.** So long as you have internet access, you will be able to see our briefing as soon as it is written at the end of each month. We plan to keep to our current production schedule. This means you should receive the briefing via email and/or see it at www.BLBB.com no later than the second to last business day of each month.

We currently have email addresses for about three-quarters of our client base and are working diligently to gather as many more as we can. If you have an email address but have not yet shared it with us, we would appreciate it if you would do so. You can send your email address to Maisha Bell at mkbell@BLBB.com and she will add you to our mailing list. Of course, we will never use your email address for anything other than BLBB communications!

If you do not have an email address and you do not have access to the Internet, we would be happy to mail you a hard copy of our briefing. Please call Maisha Bell at 215-643-9100 and she will make sure a copy of our briefing is mailed to you each month.

We thank you for your cooperation with this change and hope it is not too disruptive to you. Ideally, our switch to an all-electronic version of our briefing will mean you have quicker access to more timely information. Also, we will now be able to make better use of charts and graphs and to publish in color – things we either could not do or could not do as nicely as we would have liked with First Clearing. If you have any questions about this change, please do not hesitate to contact your investment manager.

As for our economic commentary this month, so far, US equity markets are off to a fine start in 2012. The Dow Jones Industrial Average is up just over 4% since the end of 2011 while the S&P 500 is up over 4.5%. There are several reasons for this positive performance. First, economic data of late has generally been better than expected. Improving unemployment figures, increasing home sales, and rising consumer and small business sentiment have all helped buoy US equity markets this month. Recent advances in the US Purchasing Managers Index (PMI) also suggest improving economic conditions in the coming months.

Second, although many European countries continue to struggle mightily with burdensome debt loads and slow to negligible economic growth, there seems to be a growing sense Europe will muddle through its financial crisis. The European Central Bank's recent willingness to expand its balance sheet in order to maintain liquidity – just as the Federal Reserve did over the last few years – is also perceived as a positive sign that Europe is taking its troubles seriously and now doing what it needs to do to hopefully prevent a further worsening of the situation.

Third, there also appears to be a growing sense that US equity markets are a “good” place for investors around the globe to be right now. Many US companies are in positions of financial strength after years of cost-cutting and conservative management. Many of these companies also have plenty of cash on hand, lower debt to equity ratios than they had several years ago, reduced borrowing expenses on the debt they carry, and a history of regularly increasing their dividends. When compared to Treasuries or other investment-grade bonds, both of which are trading at fairly high prices and at historically low yields, equities look attractive.

As we look ahead and consider how the rest of this year may play out in US financial markets, we are hopeful the current positive trends will continue but also mindful of the many uncertainties and potential problems that could dampen US and/or global economic growth. In particular, Europe probably poses the largest (currently known) threat to global growth. Many European countries are in austerity mode now in order to curb spending and get a better handle on debt. While this

goal is admirable, austerity also has a negative side. Less spending – by governments and individuals – almost always translates into slower economic growth. (Some European countries are likely already in recession or soon will be.) Slower economic growth, in turn, makes it that much more difficult to pay back debt. It will also be important for the European Central Bank to stay ahead of developments in Europe in order to prevent an out-of-control downward spiral – similar to what resulted in Lehman Brothers' demise. For example, many major European banks hold a lot of Greek, Italian, and French debt. If this sovereign debt falls too far in value too quickly, these banks could suffer major liquidity problems and/or have too much debt in relation to the value of their assets.

As for the rest of the world, many economists predict 2012 will be a year of slow and steady economic growth in the US and that despite recently improving data unemployment will remain persistently high. The overhang of unsold homes is also expected to continue dragging on the US economy. As we move further into the year, the presidential election will probably begin to play a larger part in US financial markets.

High oil prices – hovering around \$100/barrel – may also negatively impact US growth this year. At the pump, US oil prices are at their highest level ever for this time of year. Even though oil supplies are more than adequate, there is a pervasive fear about what Iran might do. Of late, Iran has been threatening to close the Straits of Hormuz if the world imposes more sanctions on its still developing nuclear program. Uncertainties associated with this situation are helping to keep oil prices high for now. If oil prices remain high for an extended period of time, or even climb, this could dampen US economic growth. Extra money spent at the gas pump is money that is not available to be spent at stores, restaurants, and movie theaters.

Emerging markets are seen as a bright spot in 2012 as growth continues apace and many of these countries are not saddled with the debt problems or the entitlement issues burdening the more mature economies. China still appears to be headed for a “soft landing” after months of tight monetary policy. Economic growth there is expected to hover between 8% and 9%.