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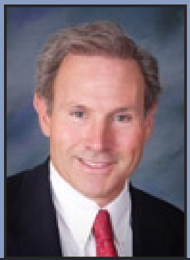

Trusted Advisor

By Gary E. Miller, CFP™

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WHO WE ARE
Certified Financial Planner™ with 35 years direct experience advising investors

WHAT WE OFFER
Complete review of your budget, your tax situation, and your ability to build wealth. We can also review your safety net: Sufficient emergency fund? Properly insured?

WHY YOU CAN TRUST US
We are retained as direct consultants to you. Since we act as fiduciaries, we do not offer any products, insurance, or investments for sale. We are your trusted advisor.

HOW WE ARE COMPENSATED
We are paid by you for rendering advice for your benefit. We may make a one time review or provide ongoing financial and investment advice. Our fees are very competitive and fully disclosed.

2011
Year End Review

2011 once again offered an endorsement of our approach to investing, with client accounts besting most equity averages to the upside, while offering far less volatility in the process. Since I began managing balanced portfolios some 11 years ago, the goal has been the same: produce an investing experience that contains less volatility than that found in the stock market, while "capturing" 80% of the stock market's upside. Most clients have experienced success in the first goal and excess in the second.[1]

Below is a summary of the past performance for some well-known equity indexes and of the composite performance for Trusted Financial's Balanced/ Value style, as a composite of all discretionary clients, current and past. These figures are stated as average annual total return:

Index	1 Yr	3 Yrs	5 Yrs
Dow Industrials	8.38%	14.79%	2.37%
S&P 500	2.11%	14.11%	-.25%
NASAQ Composite	-1.80%	18.21%	1.52%
Morgan Stanley Europe Far East	-12.14%	7.65%	-4.72%
Trusted Financial Balanced Value Composite	7.08%	10.33%	4.57%

Source: Morningstar, Trusted Financial Advisors

Please note especially how our composite performance trumped equity indexes for the trailing five year period.

Certified Financial Planner™

Gary Miller is in his 38th year of providing financial guidance to individuals and pension plans. He is a Registered Investment Advisor and a Certified Financial Planner ™ Practitioner. Gary holds a Certificate in Personal Financial Planning from the University of California, Irvine and has served as a Board member of the Financial Planning Association, Orange County Chapter.

For information about attending one of Gary's seminars please call 949-249-2057 or e-mail gary@trustedfinancial.com

2011 was the most volatile year for equities since the 2008 financial crisis. It was not unusual to see a range of 200-300 Dow points in a day, something like a 2-3% swing. When one considers that the return on stocks over the past decade has been nothing more than the roughly 2% dividend paid on an average big cap stock, the risk/reward ratio for owning stocks is as bad as I can recall. Investment in stock indexes, so bally-hooed a decade ago, has proven to be a terrible investment. Yet, in my experience, most financial planners advise such an approach to their clients because they lack the skills of stock and bond analysis. As a terrible budding guitarist, I can tell you that better music is created when one can "pick" versus when one is simply strumming chords!

While the first half of 2011 found equities markets reacting bullishly to world wide recovery prospects, things began to fall apart in May. As it became clear there would be no steps to solve a multi-trillion dollar federal debt, the inflationary implications put a chill on the market. This was accompanied by the drum beat of Europe-Europe-Europe, with authorities there loping from crisis to crisis, absent a clear strategy for its resolution. Stocks collapsed and were down some 16% during the summer.

Our significant exposure to resource related holdings suffered as demand for industrial commodities slackened, especially from China. It was not easy to let go of what I believe to be good long term investments, and client accounts suffered due to this reluctance. Fortunately, our diversification into other sectors that do not follow the commodity trend, or that benefit when commodity prices come down, more than offset these losses.

Yield Chasing = Poor Choices?

Despite their agony over *de minimus* yields paid by bank CD's, many investors cling to these for safety. Worse, some are beguiled by promised high yields on Wall Street's "black box" derivatives created by the same industry who created Collateralized Mortgage Obligations that largely led to the financial collapse three years ago. I've heard of one offering that promises an 11% return, but in fact is nothing more than a stock option writing program - a strategy that offers no such guarantees. Somehow, I suspect these will end badly for the yield hungry investors who throw money into them.

Then there are annuities, the siren song of many insurance agents, promising great first year guaranteed returns, or "make whole" provisions. Buying a deferred annuity is like sentencing your money to jail for seven or eight years. Why? Most annuity contracts have huge back end early withdrawal penalties, a provision that is somehow not made apparent to most annuity investors when they are being sold this doubtful product. Further, heavy annual internal fees almost assure subpar returns.

The volatility that was such a prominent feature of 2011 equities markets promises to continue in 2012. It is only logical that the uncertainty of a major presidential election in the world's largest economy will roil markets. The European debt situation has dropped off the front pages since Italy was able to refinance a large tranche of debt just before the holidays, but make no mistake, the Eurozone's struggles will continue throughout 2012. At best, the Euro will devalue mightily against the US Dollar, at worst, the Zone may begin to break up, with unknown consequences, but certainly a negative effect on financial markets, especially financial companies. I plan to continue to hold significant amounts of cash, unless presented with opportunities to invest in "Cash Cows" at reasonable prices. This is not a prediction of a bad year, only a re-affirmation that a careful, circumspect approach will be just as important in 2012 as it was in 2011.

For decades, hard money advocates have warned that a US dollar cut from any relationship to a hard asset like gold is destined to collapse in value. When one considers that in 1974, when I began my career, a loaf of bread could be purchased for about 28 cents, but now costs about $1.50 this prediction has proven substantially correct. A Federal Reserve Note was originally a promise to pay gold or silver specie. Incredibly, Americans accepted an end to this promise during the 20th century and have continued to use paper dollars as if they have intrinsic value. Such is the power of habit. There's nothing substantial behind the promise of a paper dollar, as there had been for over a century prior to the 1960s. At our annual holiday luncheon I quoted the 1974 warning of a hard money advocate who predicted dark times ahead for the USA due to its irresponsible and unbridled issuance of paper currency. But those who worry about a Wiemar Republic type runaway inflation are only partially correct. Paper money is a bad long term investment, but by slowing the process of money creation, government can prolong the inevitable drainage of buying power, enough to convince people to continue to hold this fictional store of value. This start-and-stop process also allows alert investors to build wealth at a faster pace than the dollars in their wallet are losing buying power. Right now, this process is going on with the Federal Reserve. When they sought to prevent another depression in the face of a collapsing financial sector three years ago, the Fed accepted "junk" paper as collateral from AIG, troubled banks and Fannie Mae, among others. They issued credits (dollars) for this suspect collateral, and kept many financial institutions afloat in the process. Over the past six months however, the Fed has been selling off its portfolio, slowly, and money creation has slowed dramatically. Many in Congress would like to force additional money creation by borrowing, which would possibly force the Treasury to then sell more bonds to the Fed, but House Republicans in Congress are preventing this accelerated Federal spending, which indeed, appears unnecessary as a sustainable economic recovery seems to be finding momentum. If things go as planned, the current American economic recovery will allow the Fed to actually shrink its balance sheet, and should for a time, stabilize the value of a dollar. The big story for 2012 and perhaps beyond, could just be a renewed supremacy of the Greenback in world currency markets. Further, the Euro, created to meld Europe into an economic powerhouse, has had the effect of making the US Dollar appear even more valuable. As one wag has put it, a US Federal Reserve Note consists of the US central bank promising to pay you… what? But, with no clear central authority, the Euro represents a promise to pay "what"? by "Whom"? By having stronger nations lend to banks in insolvent nations like Greece, Portugal, Italy and Spain, the entire eurozone becomes suspect. Usually, when an economy is suspect, it's currency is devalued by the marketplace. So I predict a further, substantial decline for the Euro in 2012 (make your travel plans now!) After this brief overview, it will not be a surprise to learn that our present investment bias favors domestic companies that are not overly dependent upon sales to Europe.

The good news appears to be that the US, the world's largest economy (still!), has momentum to continue moving in a positive direction. US consumers have reduced personal debt and were out in the malls and on line shopping for the holidays! It is notable that the Dow Jones industrial average, replete with dividend paying stocks, had a better total return in 2011 than the Standard & Poor's 500 or the NASDAQ. This, in part, explains the satisfactory performance of client accounts: most equities we own are dividend payers: we like to see money flowing back into client accounts on a regular basis and so do our clients!

Some of our better performers in 2011 included Verizon (VZ), a way of playing the Apple iPhone phenomenon while collecting a generous dividend, near 6%. Then there was McDonald's (MCD), another reliable dividend payer. While reducing our exposure to a very successful investment in YUM! Brands (YUM), due to worries about a slowing Chinese economy, we took a bite out of Big Mac: the stock was touching all time highs as 2011 came to a close. Energy pipelines were outstanding performers for us in 2011, so much so that I am beginning to worry that the sector is becoming over loved.

Bonds continued as a mainstay of most client portfolios, with our wide - ranging holdings grinding out generous yields and mostly appreciating in value as investors piled into the sector in search of yield. It's nice to be ahead of the crowd, as our clients were, having loaded up on high yielding bonds during the Financial Panic.

Well, I could ramble on with my outlook for the world economy, which I'll likely post to the blog soon, but to sum it up, 2011 was a very difficult year in which to be a money manager. Yet, with nearly 38 "difficult" years under my belt, it becomes a bit easier to maintain a certain equilibrium in the face of "devastating", "unprecedented" and "cataclysmic" threats. A Chinese word for "crisis" was said, by John F. Kennedy, to be composed of two symbols meaning "danger" and "opportunity". We found both in 2011!

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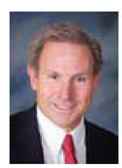
Sincerely,



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Footnotes:

[1] While we speak of composite client performance and produce a track record based on this composite, note that each client account is individually styled to meet the particular needs of the client and his/her family. No two clients have exactly the same investment experience. Each client will receive an individual portfolio performance analysis.