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MANAGEMENT
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Elumination Newsletter

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As January Goes, So Goes the Year

February 1, 2012

According to the Stock Trader's Almanac the "January Barometer" was created by Yale Hirsch in 1972. He was the founder of the Almanac. It simply states that as the S&P 500 goes in January, so it goes for the year. For the record, the S&P 500 was up nicely for the month of January. It was the best January for the index since 1997. Therefore it should be up for the year.

The Almanac states that "the long term record has been stupendous, an 88.7% accuracy rate."

The Almanac goes on to say that the "January Barometer" has only had "seven major errors in 62 years. However, in the 62 years since 1950 only two of those errors occurred when the S&P 500 was positive in January for an incredible 95% accuracy rate!"

Unfortunately those two "errors" are burned into our very recent memories. One of them was 2007 when the market was up in January but finished down on the year. That was the year the S&P 500 reached its

Country	Index/ETF	2011 % change
Indonesia	\$IDDOW	3.00
USA	S&P 500	-0.003
Thailand	\$SETI	-0.68
Malaysia	\$INM	-4.79
England	FTSE 100	-5.55
South Korea	\$KOSPI	-10.97
Canada	\$TSX	-11.07
Mexico	\$INW	-13.37
Germany	DAX	-14.69
Australia	\$AORD	-15.17
Sweden	EWD	-16.91
France	CAC 40	-16.95
Singapore	\$STI	-17.05
Japan	\$NIKK	-17.34
South Africa	\$FZA	-17.65
Brazil	\$BVSP	-18.11
Hong Kong	\$HSI	-19.97
Norway	NORW	-20.73
Peru	EPU	-21.61
China	\$SSEC	-21.68
Taiwan	EWT	-21.78
Russia	\$RTSI	-22.03
Turkey	\$XU100	-22.33
India	BSE Sensex	-24.64
Chile	ECH	-26.45
Italy	\$INE	-26.65
Argentina	\$MERV	-30.14
Vietnam	VNM	-43.82

peak of 1576.09 and we have never been close to that level again. The other "error" occurred in 2011 when the market was up in January but finished down for the year-ever so slightly. The S&P 500, on which the Barometer is based, nearly broke even in 2011, but as we pointed out in our last newsletter, it was about the only major stock index that did. Stock markets around the world, including other major U.S. stock averages, finished 2011 in the red. Therefore, despite the long term success of the January Barometer, please excuse us while we lick the wounds on our recently burned fingers.

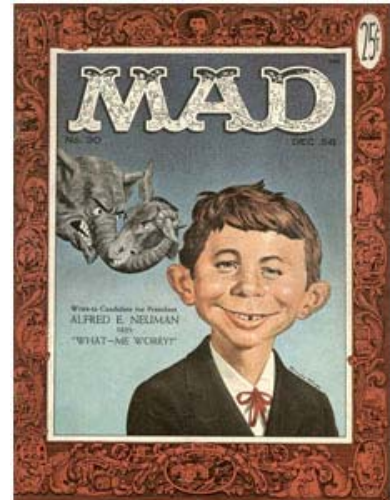
Even though 2011 holds some pretty grim memories for market participants it is hard to argue with the way the market has started 2012. Every index listed on this table is UP for the period January 1-January 31, 2012. Vietnam, Argentina, Turkey, Peru and Brazil are all up over 10% for the month. Keep in mind they were some of last year's worst performers. Germany is up over 9% on hopes that it will be the engine to pull Europe out of a recession.

The month of January 2012 has been nothing short of miraculous for equity markets around the world. It is as if all the worries of 2011 have simply vanished. But we all know that isn't true. It is our belief that something else may be going on. It isn't as if the worries have simply vanished. They haven't. A Greek debt default is now imminent. What seems to be the case is that market participants are now sensing that the damage to global markets will not be as significant as was imagined last fall. The markets also seem to be giving European politicians a vote of confidence that they will keep a Greek default from becoming "contagious". Whether these are appropriate conclusions will only be known after the default.

In the U.S. headlines about our own debt problems have all but disappeared. "We the people" seem to have accepted the idea that nothing constructive is going to happen until at least after the Presidential election. So like Alfred E. Neuman we have simply chosen not to worry. We are going about our business while the politicians posture and get ready for the election.

In the mean time the U.S. economy has held up. We see no obvious signs of rolling over into the next recession. Economists around the world continue to debate whether or not we can avoid a "double dip" here, while Europe goes about rebuilding its Union and economies. Holding the U.S. economy together is dependent on China holding together and so far that economy appears resilient too.

We have learned to listen to CEO's perspectives on global economic conditions and to place more weight on them than we do on "official data". Recently the CEO's of United Parcel Service (UPS), Caterpillar (CAT), and Alcoa (AA) have been forceful and direct in their indications that global economic activity is slowly but continuously improving. These are companies that are on the front lines of delivering goods, parts, machinery, and materials for growing economies around the world.

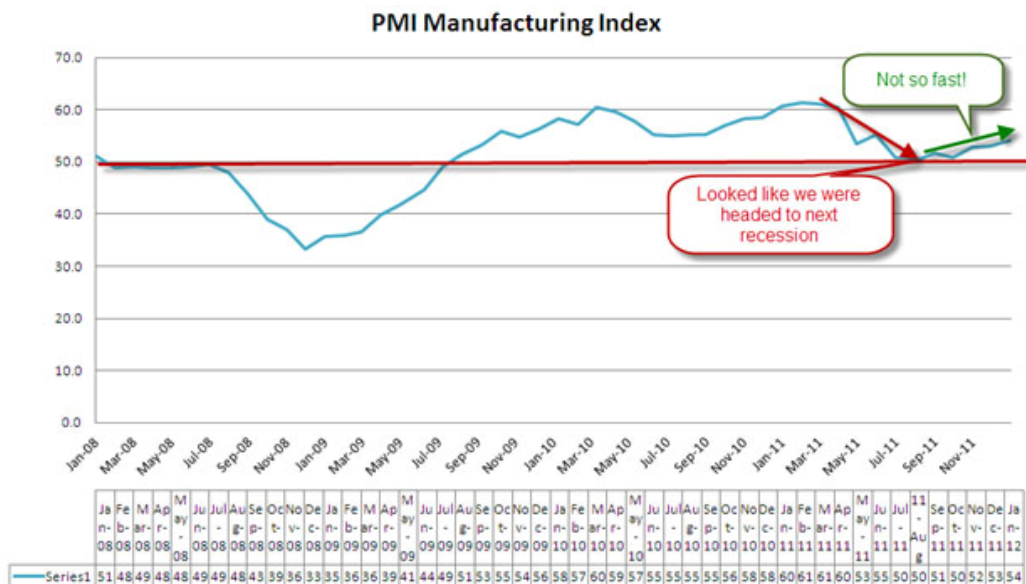


Other companies like Nike (NKE), McDonald's (MCD) and Starbuck's (SBUX) are growing as fast today as they did a decade ago. The difference is that much of their growth is taking place outside the United States in countries where new middle classes demand their products.

We are in the midst of the next technological revolution. During this one the whole world is becoming connected wirelessly. Companies like Apple (AAPL), Google (GOOG), VMWare (VMW), Samsung and Facebook are leading this revolution.

The stock market is often referred to as forward looking and reflecting expectations at least six months into the future. If that is the case then the market is currently telling us to continue to expect the global economy to stay steady, or improve, over the next several months.

The Institute of Supply Management reported its most recent Manufacturing Index today. It has risen four straight months, after bottoming in October. At that time it looked as if the U.S. was about to tip toward recession. That now seems like an ancient memory.



This is not to say that an "all clear" whistle has blown. There still seems to be plenty to worry about on a daily basis. Global unemployment rates remain too high. That is especially true among young people. From the United States, to Europe, to South America, to Africa, to the Middle East and South East Asia the unemployment rate for young adults under age 25 remains stuck in high double digit territory.

The economic recovery since the bottom of the recession has been muted compared to previous recoveries. Getting people back to work has been the toughest part. Millions of jobs that disappeared during the recession are not likely to come back. Jobs have been dispersed globally. Technology has improved productivity around the world. In many cases the education that young people are getting does not prepare them for the highly technical jobs that are available. That is particularly true in emerging markets, but also applies to the U.S.

My son is a computer engineer for Adobe. He interviews a lot of candidates for engineering jobs. He says he dreads it because so many applicants are totally unqualified for the positions they are interviewing for.

The International Labor Organization in Geneva, Switzerland published a comprehensive study on labor conditions around the world in 2011. It is 104 pages long. If you are interested here is a link http://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/@publ/documents/publication/wcms_150440.pdf.

Here is one small quote from the study, ***"The delayed labor market recovery only serves to exacerbate the tremendous human costs of the recession, including reduced lifetime earnings and employability, along with broader health and social effects. Given the potential for these effects to linger, affecting the current generation of workers and threatening the human capital potential of both current and future generations, it is essential to forge a recovery that is job-rich and sustainable."***

We see this as the biggest challenge to accelerating sustainable global economic recovery. CNBC reported yesterday that unemployment in the Euro-zone is at its highest level since the currency was introduced.

How do we get the young people to work in a time when governments around the world are pulling back on economic stimulus in favor of austerity? We suspect it will be a very long process.

Real Estate Needs to Bottom

Lee and I have daily discussions about what needs to happen to accelerate economic growth in the U.S. We think the number one "booster" for the economy would be for housing prices to stop dropping, stabilize and turn upward. There are obvious real economic reasons that this would boost the economy, but we think the psychological impact would be the most important.

CNBC reported yesterday that ***"U.S. home prices fell for a third straight month in nearly all cities tracked by a major index. The declines show that most homeowners are not reaping the benefits from some signs of an improving housing market."***



The Standard & Poor's/Case-Shiller home-price index shows prices dropped in November from October in 19 of the 20 cities tracked.

The biggest declines were in Atlanta, Chicago and Detroit. Phoenix was the only city to show an increase.

Prices declined in 18 of the 20 cities in November compared to the same month in 2010. Only Washington and Detroit posted year-over-year increases.

"As much as anything else, when one looks at housing there are hints at better times in terms of supply, in terms of single-family starts," David Blitzer, chairman of the Standard & Poor's Index Committee, told CNBC. "Prices will probably be the last thing to move. We have to get demand up, we have to tighten supply a bit before we will see any shift in prices and we haven't seen that."

The decline partly reflects the typical fall slowdown after the peak buying season. Still, prices have fallen 33 percent nationwide to 2003 levels."

My wife was prescient about this. She was saying in 2009 and 2010 that housing prices had to fall back to 2003 levels before they would hit bottom. Well, they have and we believe the bottom is close for all sections of the country. Select markets have already turned up including many in California and Florida.

We are with hedge fund manager John Paulson on this one.

Speaking to a standing room only crowd at the University Club in midtown Manhattan, Paulson reportedly said: "If you don't own a home, buy one. If you own one home, buy another one, and if you own two homes buy a third and lend your relatives the money to buy a home."

Paulson was actually early on that call, but the message seems correct to us now.

The bond market in the U.S. remains steady

U.S. News and World report recently ran this story, ***"The Federal Reserve has just extended its low interest-rate policy through the end of 2014. The central bank was widely praised for its extraordinary commitment to helping the economy recover."***

But there was little, if any, cheering from investors and retirement experts who are looking at nearly three more years of dismal yields on bonds, CDS, and savings accounts."

As well-known investment economist and adviser Burton Malkiel told U.S. News, the world of safe investing is turned upside down when the yield on AT&T's stock dividend is 6 percent, while its bonds are yielding only 3 percent. Malkiel, and many others, are jumping ship on long-held advice for investors to include lots of bonds in their retirement portfolios as they age."

Stephen Utkus, head of retirement research at Vanguard, notes that many bond investors fared very well last year as already-low interest rates declined even further. Because the prices of existing bonds rise as interest rates fall, many bond investors saw double-digit returns in 2011."

But with little, if any, room for continued declines in interest rates, the odds of appreciating bond prices are small. The Fed's commitment to maintain low interest rates may reduce some bond investors' fears of falling prices, but it does not create the conditions for making money. Learning to live with 3 percent bond yields looks like the new normal for fixed-income investors."

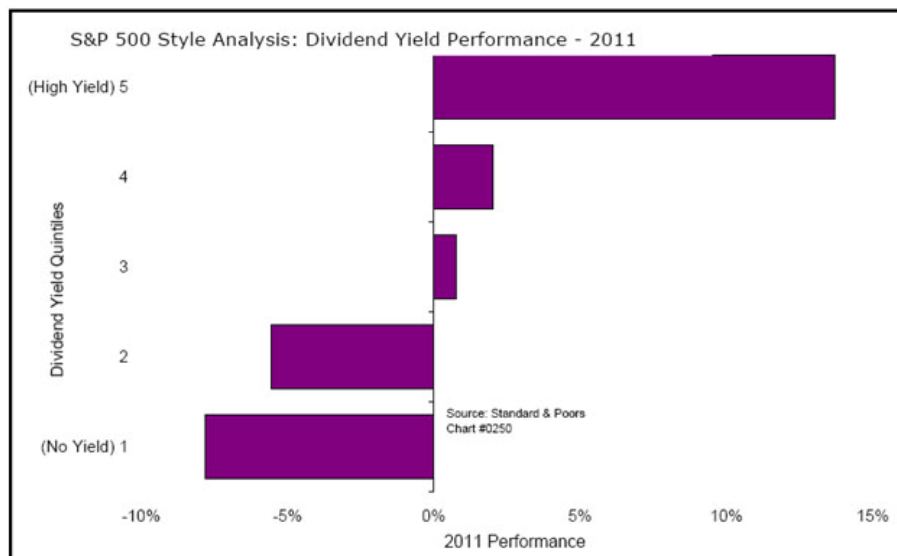
The bad news is that yields are low. The good news is that the Fed is indicating they are likely to stay low for the next few years. For risk adverse investors the bond market is still the place to avoid volatility and whipsaws that have become common in stocks. We are extending maturities in our Pt. Reyes model out to five to seven years.

That takes us right back to high yield stocks

We are the first to admit that being invested in stocks during the past few years has been a source of stress. But stocks that pay above average dividends remain our favorite asset class. So much so that we introduced the Pt. Sur model in late 2009. It is 100% invested in high yield stocks. In 2011 we rebalanced Halifax so that it holds 80% of its assets in high yield stocks. Hatteras and Mendocino are roughly 60%

invested in similar stocks. Fresnel and Key West now have approximately 50% weighting to high yield equities. We keep repeating these ratios in recent newsletters.

During 2011 the highest yielding quintile of stocks (top 20%) within the S&P 500 gained 13.7% while non-dividend payers fell 7.8%. That is a remarkable differential in performance.



We expect dividends to be a key component of equity returns in 2012, just as they were in 2011.

Goldman Sachs offered this comment recently:

Dividends accounted for 20% of the 7.2% annualized total return to US stocks since 1950, 40% of the 1.6% average total return during the past decade, and 100% of the total return last year.

We forecast 2012 S&P 500 dividends per share will establish a new record high of \$29.20, exceeding the prior peak reached in 2008. Dividend swap market implies similar dividend growth in 2012 compared with our forecast, but lower growth from 2013 through 2021. We expect 23% and 15% dividend growth for Information Technology and Financials, respectively.

We intend to continue overweighting high yield equities in all models eligible to hold them. We repeat that it is our favorite asset class.

What about gold?

We haven't commented on gold in a while. The technical picture for gold is unclear at this time and frankly we are not sure whether the 12 year bull market has significant upside left or not. Our bias is that gold will get back on track and continue to move back up. We have often made the point that there are only two components to this trade. People want to own gold as an alternative to falling fiat currencies. The U.S. dollar has actually stabilized in recent months as it looks like a decent temporary alternative to the Euro. Our take is that in the long run both the Euro and the Dollar will continue to be debased giving gold an opportunity to reestablish itself as the alternative to both. The second component is that this is a pure technical trade. If gold can get above the blue trend line on the chart below it will gain upside momentum again.



Oil and gas anyone?

\$WTIC crude oil has traded in a range of roughly \$95-\$105 for months now. Brent Crude has traded about \$10 higher. Opinions among the pundits are very mixed as to what price of crude will be six months from now. Our bias is that it will be slightly lower. That is because supply is abundant thanks to new recovery techniques involving "fracking".

"Hydraulic fracturing is the propagation of fractures in a rock layer caused by the presence of a pressurized fluid. Hydraulic fractures form naturally, as in the case of veins or dikes, and is one means by which gas and petroleum from source rocks may migrate to reservoir rocks.

However oil and gas companies may attempt to accelerate this process in order to release petroleum, natural gas, coal seam gas, or other substances for extraction, where the technique is often called fracking or hydrofracking. This type of fracturing, known colloquially as a frack job (or frac job), is done from a wellbore drilled into reservoir rock formations. The energy from the injection of a highly-pressurized fracking fluid creates new channels in the rock which can increase the extraction rates and ultimate recovery of fossil fuels. When done in already highly-permeable reservoirs such as sandstone-based wells, the technique is known as well stimulation." --Wikipedia



Fracking is a very controversial technique, but it is widely used at this point and has turned old tapped out wells into veritable gushers. Fracking has caused the price of natural gas to collapse as supply has totally out stripped demand.

"Fracking" is the reason that we recently made the point that one of our favorite sectors of the stock market is pipelines. It doesn't matter whether oil is trading at \$105 or \$85. It moves through pipelines at any price. Why not own Enbridge (ENB), Transcanada (TRP), Enterprise Products Partners (EPD), Kinder Morgan (KMP) and collect 4 to 6% dividends? Why not own all of them, plus a bunch more, through the Alerian MLP (AMLX) exchange traded fund (ETF) and collect a cool 5.9% yield regardless of the prices of oil and gas?



Summary and Conclusion

Our view is that while the global economy is not out of the woods quite yet, equity markets around the world seem to be signaling that the economy will continue to improve.

The technical condition of the U.S. stock market is good. Key indicators that we track on daily, weekly and monthly charts are all on BUY signals.

All of our models that are eligible to hold equities are invested in the market. At the present time Pt. Sur is 100% invested. Halifax is 80% invested. Cape Lookout, Hatteras, Mendocino, Key West and Fresnel are all 60-65% invested in equities. Pt. Reyes remains 100% invested in bonds.

None of our models are hedged at the present time.

We are emphasizing yield where we can. High yield stocks remain our favorites, followed by the tech companies that are leading the next technical revolution.

We are mindful that there are still plenty of bearish arguments that can be made. We clearly understand that many of the problems that almost led to the market collapse in the fall of 2011 have not been fixed. That keeps us from getting 100% committed to the bullish arguments for equities. We are anxious for the Greeks to default so that we can see whether the markets are correct in their assumption that the damage will be contained. We see that as key to the bullish argument going forward.

It is hard to argue with the current technical condition of the market and the fundamental value it seems to offer. Therefore we are staying long the market.

Bond yields are low, and are very likely to remain low for the next couple of years. The wild card for bonds is an accelerated economic recovery. Should it happen, the surprise of 2012 could be a rate hike by the Fed. NO ONE is currently expecting that, and you know what happens when no one is expecting a surprise. That is exactly when it happens.

Real Estate should bottom in 2012. If not it will in early 2013. We believe we are very close.

Own pipelines, not oil and gas. Collect dividends.

All the best,



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5T WEALTH MANAGEMENT manages accounts with various histories and investment objectives. Various accounts may be managed differently from time to time.

Krsek makes frequent reference to the model portfolios called Hatteras, Mendocino, Halifax, Fresnel, Point Reyes, Key West, Cape Lookout and Point Sur. During 2005 Paul Krsek was appointed Chief Investment Officer of 5T WEALTH MANAGEMENT, and as such is responsible to make all trading and management decisions for all client accounts which are being managed according to a specific portfolio model. A description of each of our models can be found on our website at http://www.5twealth.com/prd_port_signup.cfm.

Not all accounts managed by 5T WEALTH MANAGEMENT are "modeled" accounts. We strongly urge our clients to understand which model, if any, are being used to manage their accounts.

As of July 3, 2007 Lee O'Dwyer joined 5T WEALTH MANAGEMENT as a portfolio manager. Paul Krsek and Lee O'Dwyer frequently discuss investment ideas, model portfolio strategies and the investment policies of 5T WEALTH MANAGEMENT. But when it comes to the implementation of those policies Krsek is primarily responsible to manage the accounts that fit into each model portfolio description. He generally makes all final investment and trading decisions relative to those accounts that are considered to be "modeled." However, in Krsek's absence O'Dwyer does have the authority to trade all client accounts. He has been actively trading accounts in the various models since joining 5T WEALTH MANAGEMENT.

From time to time 5T WEALTH MANAGEMENT receives requests from clients to purchase securities that are not included in the model portfolio to which they are assigned. Effective May 24, 2006, 5T WEALTH MANAGEMENT has encouraged clients to hold such securities in a separate account for the client. Because 5T WEALTH MANAGEMENT is a "fee only" registered investment advisor" it charges its normal management fee for monitoring such securities in the separate accounts in which they are held.

5T WEALTH MANAGEMENT makes every effort to exclude securities that are 'requested by the client' from the modeled portfolio accounts.

The investment objectives of various accounts and models may be substantially different from one another. Therefore topics or investments mentioned in E-ELLUMINATION may or may not apply to specific managed accounts and/or models.

Trades or adjustments to accounts mentioned in ELLUMINATION may or may not happen in every account managed by portfolio managers at 5T WEALTH MANAGEMENT.

If you are not satisfied with the investment results in your account it is your responsibility to inform Krsek or O'Dwyer and to discuss possible changes that can be made to the account to accommodate and satisfy your needs.

The assets held in managed accounts at 5T WEALTH MANAGEMENT may include stocks, bonds, cash, commodities, foreign exchange or mutual funds or exchange traded funds (ETF's), money market accounts or limited partnerships that represent the same. They are subject to market fluctuation and the potential for losses. The assets are not insured. The value and income produced by these investment products may fluctuate, so that an investor may get back less than they initially invested.

The portfolio managers at 5T WEALTH MANAGEMENT do not guarantee results.

Past performance should not be considered an indicator of potential future performance. If you do not consider yourself suitable, either emotionally or financially, to experience volatility and/or losses in financial markets, you should not invest.

From time to time Krsek lists the simple annual returns of the six model accounts in this newsletter. These accounts are "models" and do not represent the actual results accruing to individual accounts. Simple annual return does not represent "time weighted return" as reported individually to clients in their quarterly reports prepared using Centerpiece.

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