Blue Chip News
Wisdom for Wealth. For Life.®
Winter 2012

OUR PERSPECTIVE

The Year In Review

One year ago markets were uttering a sigh of relief. The depths of the 2008-2009 financial crisis appeared to be over or at least in the rear-view mirror. Many financial professionals struck a more hopeful tone that the economy and markets had finally shifted from a focus on mere survival toward a concentration on recovery and expansion. At Ronald Blue & Co., this general market mood of "cautious optimism" was somewhat tempered by the knowledge that challenges to market growth could easily crop up in the year ahead.

At the beginning of 2011, our central economic growth forecast for the United States was for below-average growth (but for growth nonetheless). Fueled by the expansionary monetary policies of the Federal Reserve, we also expected that inflation would rise, even while certain factors (low bank lending or heightened sovereign debt risks) could limit this upward pressure on inflation.

In formulating our investment strategy, we stress the necessity of incorporating our economic principles and outlook into our investment decision-making process. How did our application of those principles actually affect portfolio design in 2011?

STOCKS: In general, our outlook for below-average growth led us to tilt our portfolios to a slightly more conservative position. Even in our most aggressive portfolios, we were not 100% invested in stocks. Instead, we allocated a portion of our equity exposure to gold and productive commodities designed to provide a measure of protection to the overall portfolio in times of higher inflation or increasing worldwide systemic risks.

BONDS: We maintained a defensive position from an interest rate risk standpoint. As a whole, our bond investments had a relatively short duration and were thereby designed to offer more principal protection (compared to longer-maturity bonds) if interest rates were to rise. At the same time, our portfolios were underweighted in U.S. government debt, a reflection of the historically low yields offered to investors and of our heightened concerns about the health of the U.S. fiscal balance sheet. Instead, we focused on corporate sector investments, since most companies had taken steps to improve their balance sheets since the 2008-2009 financial crisis.

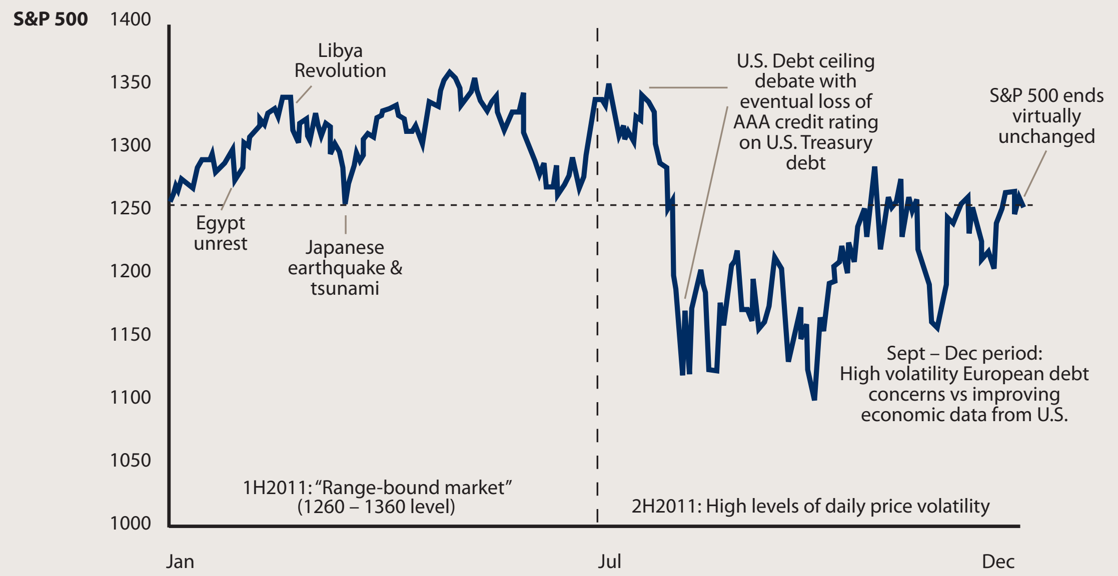
Looking Back at 2011

In retrospect, our economic forecast for 2011 was largely on target. Growth across developed economies (particularly those burdened with high amounts of debt) was indeed below average. In fact, growth in the U.S. for the first half of the year turned out to be weaker than even our already mild expectations. Similarly, our inflation outlook was correct, with the year-over-year Consumer Price Index (CPI) moving from very low levels in 2010 to slightly above its historical average in 2011.

Unfortunately, having a generally accurate inflation and economic

continued

2011 Events Fuel Choppy U.S. Equity Markets



growth prediction did not translate into an environment of above-average returns for our portfolios. The market focus did change in 2011, but not in the direction of economic recovery. Instead of moving from a focus on survival toward one of recovery, the markets continually stumbled over a chain of systemic event risks. Weak and uncertain U.S. fiscal policy, the lack of a coordinated response to the European debt crisis, war in Libya, revolution in Egypt, and a Japanese natural disaster all shook financial markets, leaving investors feeling like that shiny little ball in a pinball game.

- Political demonstrations in the Middle East marred the first quarter of 2011, including Egypt's overthrow of the Mubarak government. This spirit of revolution also spread to neighboring Libya, resulting in a protracted civil war with the eventual overthrow and death of long-time dictator Moammar Gadhafi. The near-term reaction to this Middle Eastern uncertainty was a spike in oil prices and a negative impact to investor confidence, as analysts questioned the economy's ability to overcome $100+/barrel price tags on oil.

- The massive Japanese earthquake and tsunami was another negative factor. While the devastating human cost cannot be overstated, the blow to the Japanese economy was also felt far and wide in global supply chains, including technology and automobile manufacturing.

- The spring's market uncertainty over geopolitical events and natural disasters led to summer haziness over U.S. fiscal policy decisions, as Congress played a dangerous game of political brinksmanship with a debt-ceiling extension. This decision led to a negative ratings outlook on the AAA credit rating of the United States by all major rating organizations and the eventual loss of the AAA rating from Standard & Poor's. The inability of politicians to agree on a long-term debt reduction plan (a process that was repeated by the failure of the Budget Super-Committee in the fall) had a profound negative impact on business confidence.

- Correspondingly, investors became much more risk-averse and headed for safety, sending global stock markets down sharply after the debt ceiling deadline and credit downgrade. Eventually, a number of equity markets entered into bear market declines of 20% or more from highs reached earlier in the year. In one of the great financial market ironies of 2011, investor's desire for "safe haven" investments led them to move assets out of equities and into the perceived "safety" of Treasury debt, the very focus of rating agency attacks and debt default concerns. This action sent yields on Treasuries tumbling toward historical lows. (In other words, an investment that we already viewed as significantly overvalued entering 2011 became even more so throughout the year.)

- As we entered the fall, market focus turned to Europe. What had

been a crisis involving smaller, peripheral countries like Greece, Ireland, and Portugal grew far wider in scope and magnitude. The debt of Italy and Spain looked increasingly at risk as borrowing costs were driven higher for these debt-laden countries. The markets became increasingly fragile as they called for European policy makers to "get ahead" of the expanding debt crisis. Each response from policy makers appeared to be met with initial market optimism and hope, but with each new twist in the debt crisis that required a policy response, this "hope reaction" grew increasingly short-lived. Uncertainties over Europe and its debt crisis waged a war against the trend of gradually improving U.S. economic data for the last few months of 2011, leaving both equity and debt markets swinging wildly. Excessive daily market volatility left investors and advisors feeling battered and bruised.

In summary, 2011 was a year marked by early signs of optimism, but this optimism was shaken repeatedly by natural disasters, by political wrangling, and by developed economies awash in too much debt. Major U.S. stock indices were able to finish the year at relatively unchanged levels, but 2011 will likely be remembered more for the substantial amount of volatility in stocks and other investments in a world buffeted by systemic risk concerns.

A Look Forward to 2012: More Highs and Lows Ahead?

For 2012, we anticipate that worldwide financial markets will still face periods of high short-term volatility. This volatility is linked to continuing systemic risk factors, such as the debt crisis in Europe, a slowing Chinese economy, Mideast uncertainty centered on a nuclear-capable Iran, a transition in North Korean political leadership, and a U.S. presidential election. Other unforeseen events could also arise and impact global markets, like the Japanese earthquake and tsunami did last year.

But a volatile environment does not necessarily mean that stock markets are destined to finish the year flat or lower. There is the possibility that certain systemic risk factors will be resolved in a constructive way. Consider, for example, the strong positive market reaction that could result from America simply moving back toward its founding economic principles that helped create an enormous amount of wealth and raised the U.S. to superpower status. Even small moves toward greater clarity in tax policy and regulatory change would be welcomed. The November elections will serve as critical signposts of this country's willingness either to embrace a return to greater levels of economic freedom or to continue with unsustainable debt levels and inefficient forms of government micro-management.

While international equity performance distracted from our portfolio returns in 2011, we believe that patience and a long-term perspective are necessary. We must avoid, as one expert phrased it, an environment where "everyone (is) looking about two weeks into the future… versus five years in the future in a bull market." In our estimation, there are potential long-term rewards from international equities, as they offer higher yields compared to U.S. stocks. We continue to seek stocks in countries that embrace policies similar to the Ronald Blue & Co. economic principles. These countries tend to be more fiscally healthy, are reducing debt, or are implementing pro-growth measures, all of which tend to foster more dynamic levels of growth.

Our focus in portfolio design continues to be driven by prudent long-term factors, as no one can perfectly time market price gyrations that may span only days, weeks, or months. Achieving a targeted rate of return over the appropriate investing time horizons remains our primary portfolio construction goal. We continue to believe that this is best accomplished by buying and owning asset classes at appropriate valuation levels over the long term. Investors whose assets are allocated for reasonable time horizons and who stay diversified are better positioned for long-term success.

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Ronald Blue & Co., LLC (RB&Co.) is a national financial planning, estate planning, and investment management firm serving more than 5,000 clients through a network of 15 offices across the United States. Founded in Atlanta in 1979, the firm manages over $6 billion in assets and employs a staff of more than 250 people.

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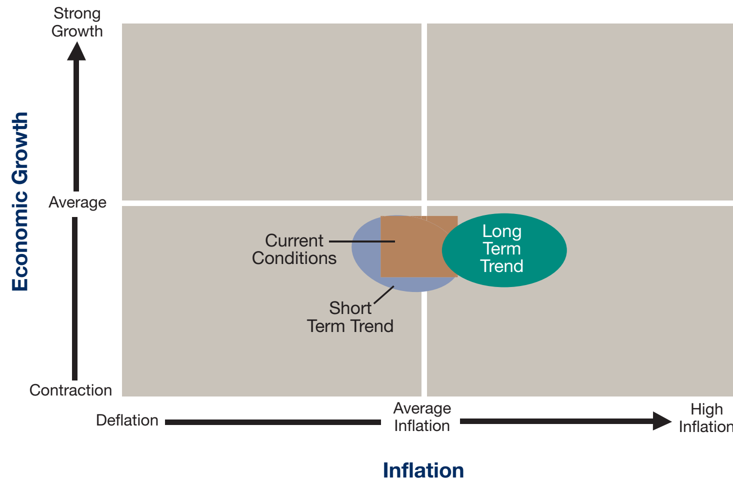
Economic Dashboards | Winter 2012

Economic Season



Investment Strategy

Overweight	Commodities Corporate Bonds
Underweight	Mortgage Bonds Stocks
Minimize	U.S. Treasuries REITs

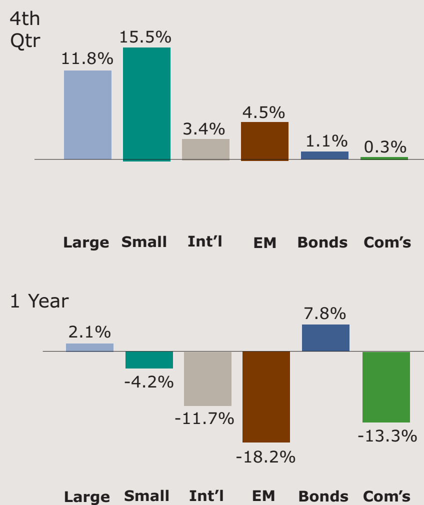
Short-term outlook

Although recent economic data (particularly for the United States) has shown signs of improvement, we expect global economic growth rates to slow in 2012. The U.S. likely avoids recession, continuing to "muddle-through" at below-trend growth levels. We also expect that the Federal Reserve will continue to apply monetary stimulus to a low-growth economy, raising the risks of higher future inflation. Overseas, Europe, burdened by its debt crisis, will likely fall into recession, while the risks of a more severe cyclical downturn in China could put pressure on emerging market economies. Volatility is likely to remain elevated, as markets are buffeted by the uncertainty surrounding U.S. elections in November, the ongoing developments in the European sovereign debt crisis, and other factors.

Long-term outlook

Excessive levels of public debt continue to threaten the global financial system, with money being diverted away from more productive forms of capital formation. Regulatory uncertainty has also contributed to corporate unwillingness to commit to long-term investment plans, further suppressing the amount of growth the economy can achieve. Also, much of the developed-world's central banks continue to pursue loose monetary policies, which raises the risks of higher future inflation.

Asset Class Results* 12/31/11



Key Economic Indicators (December 2011)

	Year-over-year change			
	2008	2009	2010	4Q11*
GDP	-3.3%	-0.5%	3.1%	2.8%
Total Employed	-2.6%	-3.2%	0.8%	0.3%
CPI	-0.1%	2.8%	1.4%	-0.1% (e)
Money Supply (M2)	10.1%	3.4%	3.3%	1.2% (e)

- GDP measures the total value of goods and services in an economy.
- Total Employed measures total workers in an economy.
- CPI measures the change in price of consumer goods and services.
- Money Supply (M2) consists of currency, travelers checks, checking accounts, savings accounts, CDs, and retail money market mutual funds.

* All measures but the latest quarter represent year-over-year changes ending on the date indicated. The most recent quarter reflects a quarter-over-quarter change. (e) denotes estimates.

***Indices used:** Large—S&P 500 Index, Small—Russell 2000 Index, Int'l—MSCI EAFE Index, EM—Emerging Markets Free Index, Bonds—Barclay's Aggregate Bond Index, Com's—Dow Jones/UBS Commodities Index. The "Asset Class Results" selected show investment returns for differing asset classes over the time periods illustrated. The "Key Economic Indicators" represents select U.S. economic indicators. The investment returns and economic indicators and their relationship could differ significantly from those shown if longer time periods were illustrated. Past investment performance in any single asset class or style is not a predictor of future results. No information on this page or in this newsletter should be construed as individualized investment advice.