

SMITH HAYES

Financial Services

Fourth Quarter 2011
Volume 3, Issue 4

SMITH HAYES

Financial Services Corporation

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Inside This Issue:

Fourth Quarter Market Performance Review <i>Clinton Rushing, CFA</i>	1
Keep Calm & Carry On <i>Clinton Rushing, CFA</i>	2
A Resolution Worth Keeping <i>Maria Sinley, CFP</i>	3
Let's Party Like its 1999 <i>Brian Zahm</i>	4
A Note of Thanks <i>Lisa Smith</i>	5

Stocks Post Strong Gains During Fourth Quarter....

Clinton Rushing, CFA, Vice President– Investment Strategy

U.S. equity markets posted strong gains during the final quarter of 2011 as improving economic data within the U.S. inspired greater levels of confidence among investors heading into 2012. At the same time however, investors continued to monitor the latest developments within Western Europe as leaders of the Euro-area worked to arrive at a solution to financial challenges faced by several countries within the region. As we get set to begin a new year, Europe will once again take center stage during the first several months of the year as European leaders work to forge a sensible and durable agreement to provide stability to the Euro-zone region.

Within the U.S., a number of economic reports released during the final months of 2011 have pointed to better economic growth for the economy during the coming year. For example, the four-week moving average of initial jobless claims fell to the lowest level seen since June 2008 (Bloomberg), which could lead to increased levels of hiring activity during 2012. In addition, the housing market, which has been moribund for several years, has also shown modest signs of improvement as of late as a combination of lower home prices and attractive mortgage rates are spurring activity.

Fourth Quarter 2011, Market Data Overview.....

<u>Market Indicator</u>	<u>09/30/2011</u>	<u>12/30/2011</u>	<u>4Q 2011 Change</u>	<u>2011 Change</u>
S&P 500	1131.42	1257.60	11.2%	0.0%
Dow Jones Industrial Average	10,913.38	12,217.56	12.0%	5.5%
NASDAQ	2415.40	2605.15	7.9%	-1.8%
Russell 2000	644.16	740.92	15.0%	-5.5%
EAFE	1373.33	1422.40	3.6%	-14.2%
10-Year Treasury Yield	1.909%	1.877%	-3.2 basis points	142 basis points
Gold	\$1,628.68	\$1,565.80	-3.9%	10.0%

*Market Returns Calculated From Bloomberg Information & Exclude Dividends

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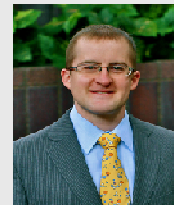
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Keep Calm & Carry On....

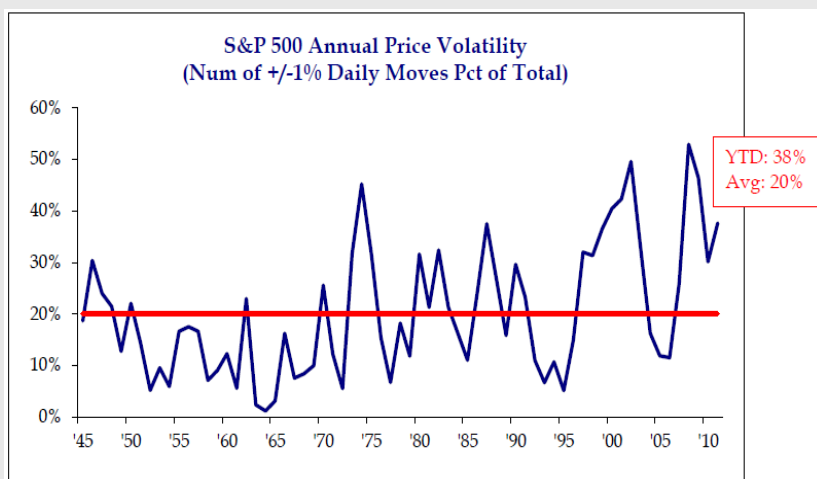
Clinton Rushing, CFA, Vice President– Investment Strategy



The year was 1939, and the British government, in an effort to boost public morale and confidence at the beginning of World War II, produced a number of posters and public service announcements that were featured within the country at the time. One of the slogans produced was known as “Keep Calm & Carry On.” While the slogan didn’t see widespread distribution in 1939, its popularity has grown during the past several years as the phrase has been utilized by a number of different companies and advertising agencies.

Importantly, the “Keep Calm & Carry On” slogan also serves as a good piece of advice for investors, who have just experienced one of the most

volatile years on record during 2011. The elevated volatility can be seen in the fact that through December 12th, the S&P 500 increased or decreased by more than 1% on 38% of the total trading days during 2011. This compares to a historical average of just 20% (Strategas Research Partners). Furthermore, while the S&P 500 Index was relatively unchanged for the full year 2011 period, a number of firms witnessed significant price declines during the latest year. According to data compiled by Bloomberg, 85 firms within the S&P 500 Index declined by 20% or more during 2011, compared with just 11 firms in 2010 and 15 firms in 2009.



Source: Strategas Research Partners, LLC

While we as humans generally don’t like volatility, from a psychological perspective, volatility is generally easier to handle if it is expected. 2012 will likely represent an important year on a number of different fronts. Within the U.S. for example, the 2012 election will be front and center in terms of determining who will lead our nation during the next four years. Secondly, ongoing uncertainty within Europe will likely continue to add to volatility levels within the global capital markets. With additional volatility expected for 2012, revisiting your financial plan and goals with your SMITH HAYES investment consultant will help you to “Keep Calm & Carry On” during the coming year.

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A Resolution Worth Keeping....

Maria Sinley, CFP, Investment Consultant



The start of a new year is a good time to review estate documents to make sure that everything is up-to-date and current. This is extremely important when it comes to beneficiary designations, particularly in retirement accounts, whether they are company retirement plans and/or Individual Retirement Accounts (IRAs.)

Why is it so important? A common misconception is that everything is covered under a will. What many people don't realize is that a beneficiary designation overrides a will. No matter how specific a will is about who gets what, any account or policy that requires beneficiaries be named will go according to the terms of those beneficiary designations. Beneficiary designations in retirement accounts are important to make sure the assets are distributed to the account owner's wishes. Not naming a beneficiary or naming the wrong beneficiary can have unintended consequences. The first and most important thing is to make sure that there are named beneficiaries. If you don't name a beneficiary, then the distribution of your retirement plan may be determined by either federal law, state law, or by the plan document. The next step is to be sure that you haven't named a beneficiary that may result in exposing the retirement assets to unintended tax consequences and/or the loss of extended tax deferral. For example, naming an estate as the primary beneficiary of a retirement account may require the assets to be paid out as a lump sum or over five years, resulting in a potentially larger tax bite, instead of allowing heirs to take advantage of further tax deferral by "stretching" their withdrawals over their lifetime. The third step is to be sure that the beneficiary designations are set up to reflect your intentions. For example, if you name your children as your primary beneficiaries and one of them predeceases you, do you want their portion to go to their heirs? And if you do, will the beneficiary designation allow that to happen?

Remember, too, that circumstances change. A marriage, the birth of a child, a divorce, the death of a previously named beneficiary – these major life events underline the importance of reviewing your beneficiary designations to make sure they reflect those changes. While it often occurs to people to change beneficiary designations on insurance policies after a major life event, they don't always remember that their retirement accounts have beneficiary designations as well, especially if those accounts were established years ago. This can be true in the case of a divorce: if the account owner has remarried and then dies, and the ex-spouse remains the named primary beneficiary, the current spouse would have to go to court to sue for the right to inherit the account, which could be costly and time consuming with no guaranteed outcome.

If you have questions about your retirement account beneficiary designations, check with your financial advisor, custodian, and/or attorney to determine whether your beneficiary designations will produce the results that you desire. Keep in mind that you can review and change your beneficiary designations at any time. The important thing is to make a resolution to do it on a regular basis, like at the beginning of the new year. It's a resolution worth keeping.

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Let's Party Like its 1999.....

Brian Zahm, Senior Vice President



The second half of 2011 was very volatile as investors had to evaluate the investment impact of situations such as the S&P downgrade of U.S. Treasury debt, the slowing U.S. and European economies and the European Debt Crisis. While each of these situations is certainly important to the overall health of the global economy, the economy's health in itself is not a good determinate of whether equities are over or undervalued.

When determining the price to pay for a business, whether public or private, an investor must estimate current and future earnings and pay a multiple for those earnings. This multiple is known as the price to earnings ratio (P/E). Companies trade at various P/E ratios due to expected growth rates, underlying asset values, superior franchise value, etc; however, the concept is the same for every company, the lower multiple you can pay for earnings, the better long-term value you are getting.

It's all about what you pay

On January 1, 2000, the U.S. economy seemed on track for growth, unemployment was low and investors were generally optimistic. The S&P 500 Index¹ traded at 1469, forward earnings were \$56 and the forward price to earnings ratio was 26 times². This equated to an earnings yield of 3.84% versus the 10-year treasury rate of 6.66% on January 1, 2000³. As most investors know, the S&P 500's performance over the subsequent 11+ years was poor. Given the S&P 500's performance over the last 11+ years, one would think that businesses must have struggled with their earnings over that period. This is far from reality. S&P 500 companies have almost doubled their earnings from 2000 to 2011⁴. Why a decline in prices then?

The S&P 500 declined because its (P/E) fell from far above average to below average. Historically, the S&P 500 trades at an average forward P/E of about 15 times⁵ and on December 16, 2011 it traded at 11.7 times⁶. The drop from 26 times earnings to 11.7 times earnings represents a dramatic change in investor's willingness to pay for earnings. By listening to the media, having confidence in a strong U.S. economy and ignoring the price that was being paid for companies versus their earnings, many investors set themselves up for failure the minute they placed their purchase orders.

On December 16, 2011, the U.S. economy seemed destined for slow growth, unemployment was high and investors were generally pessimistic. The S&P 500 Index traded at 1220, forward earnings were estimated at \$104 and the price to earnings ratio was 11.7x. This equates to an earnings yield of 8.54% versus the 10-year treasury yield of 1.85% on December 16, 2011⁷.

Common sense tells us that buying earnings at low earnings multiples probably represents good value on a selective basis. Furthermore, when comparing the earnings yield against the 10-year treasury yield, it is apparent that investors are being better compensated for the equity risk they are taking versus 2000. Common sense once again tells us that this is a better time to buy equities than in 2000.

"Common Sense is not so Common"

Voltaire

It's funny that in 2000 most everyone wanted to own equities and in 2011 most are afraid to own equities. Based on the pricing data, the optimism going into 2000 may be better suited for today. So, "Let's Party Like it's 1999".

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1. The S&P is an unmanaged index consisting of 500 companies generally representative of the market for the stocks of large-size U.S. companies 2. Bloomberg 3. U.S. Treasury 4. Bloomberg 5. Morningstar 6,7 JP Morgan Market Insights, December 19, 2011

A Note of Thanks.....



As we reflect on 2011, many events come to mind, and depending on where you live in this world the most significant events would certainly be a matter of opinion. Three significant events rise to the top in my mind as I write today.

The first is the sovereign debt crisis in Europe. This crisis, while happening across the ocean was an almost daily reminder that the world is truly flat, world economies will affect US markets, and vice versa. The second was the death of Steve Jobs, a visionary who lead Apple to be the tech giant that it is today. The somber news of his death was a sad day, but his legacy, innovation, and success will live on. The third event and arguably most important, was the 10th anniversary of the terrorist attacks of September 11, 2001. This anniversary gave us all a chance to mourn the lives that were lost on that day, and to celebrate the resiliency of our country to recover and move forward. These three events while not directly related, remind me of the important role the SMITH HAYES investment consultants and associates play in the lives of our clients. When a devastating event happens, or is ongoing as is the European debt crisis, we are reminded that we are all here to help one another. Communication is a key when we are faced with uncertain or sobering world events. At SMITH HAYES we believe that communication and client education are of paramount importance and we will work diligently to continue our commitment of such as we move into 2012.

All of us at SMITH HAYES would like to extend our deepest gratitude to our clients for entrusting us with your assets and for partnering with us in enhancing your financial position. We do not take these tasks lightly and realize that you have a choice in investment firms. As always we will continue to work diligently to earn and keep your trust. As we look forward to 2012, an election year, we anticipate the typical rhetoric that goes along with campaigning. Historically speaking, the equity markets perform well in national campaign years. Of course, we do not have a crystal ball to determine if 2012 will follow the historical norm. What we do know, based upon 2011 results, is that the markets are more volatile than we have seen, and this reminds us that asset allocation and diversification are of utmost importance. Above all, timely and effective communication by and between your SMITH HAYES investment consultant and you, our valued clients is key, if not the most important factor in managing your wealth. We look forward to serving you in 2012. We will continue to place communication as our number one priority and continue to build on the valued trust that you have placed with us. We wish you and your families a prosperous, healthy and happy new year. From all of us at SMITH HAYES, thank you.

Lisa M. Smith

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