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Market Month: February 2012

The Markets

The Nasdaq came on strong for the second month in a row (though at a somewhat slower pace than in January) as it briefly hit 3,000 for the first time since 2000. An agreement on a second Greek bailout helped the Global Dow continue to heal; its year-to-date performance is now second only to the Nasdaq's. Meanwhile, the Dow Industrial Average finally managed to close above the 13,000 level--at least for one day--and recorded its fifth straight month of gains, while the Russell 2000 lagged the large caps for the month.

After regaining some of the ground it lost late last year, gold celebrated the month's extra day by falling to just over \$1,700. Fueled in part by tensions with Iran, oil prices soared as much as 12% at one point before ending the month at \$107 a barrel, raising concern about prices at the pump and the potential impact on economic recovery. The euro hit \$1.34 at one point--its highest level since Thanksgiving--as eurozone interest rates stabilized a bit, while the yield on 10-year Treasuries nudged upward.

Market/Index	2011 Close	Prior Month	As of 2/29	Month Change	YTD Change*
DJIA	12217.56	12632.91	12952.07	2.53%	6.01%
Nasdaq	2605.15	2813.84	2966.89	5.44%	13.89%
S&P 500	1257.60	1312.40	1365.68	4.06%	8.59%
Russell 2000	740.92	792.82	810.94	2.29%	9.45%
Global Dow	1801.60	1915.01	1997.44	4.30%	10.87%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	1.89%	1.83%	1.98%	15 bps	9 bps

*Equities data reflect price changes, not total return.

The Month in Review

- The Bureau of Labor Statistics said U.S. payrolls added 243,000 jobs in January, bringing the unemployment rate down to 8.3%. It was the fifth straight month of lower unemployment.
- The U.S. economy grew at an annual rate of 3% in Q4 2011, a more rapid pace than the 2.8% initial estimate. Once again, the Bureau of Economic Analysis said inventories were a major contributor, though consumer spending and commercial construction also were up.
- Eurozone finance ministers agreed to the terms of a second bailout for Greece, worth €130 billion, after the country's coalition government approved additional austerity measures and private bondholders (i.e., banks) agreed to swap their Greek sovereign bonds for ones worth almost 54% less. However, the G-20 nations postponed committing more resources for the International Monetary Fund's contribution to the bailout effort, saying they want to see how European rescue efforts progress.
- Moody's slapped new credit rating downgrades and/or negative outlooks on several European countries, including the United Kingdom and France, because of their exposure to the more troubled countries' debt.
- Congress agreed to extend through the end of 2012 both the 2% payroll tax reduction and long-term unemployment benefits.
- Though housing starts, new residential construction, and home resales all improved during the month--they were up 1.5%, 1.5%, and 4.3% respectively--the good news didn't extend to home prices. The S&P/Case-Shiller national index of home prices hit its lowest

point since its mid-2006 peak.

- Manufacturing data was mixed. The Commerce Department said durable goods orders fell, mostly because of a drop in orders for commercial aircraft, but the Fed's surveys of the New York and Philadelphia regions hit their highest levels in months.
- Inflation at the wholesale level rose 1% in January, putting the rate for the past 12 months at 4.1%. However, not all the increases made their way to the consumer level; according to the Bureau of Labor Statistics, consumer inflation was up 0.2% for the month and 2.9% for the last year. Meanwhile, the Commerce Department said retail sales rose a modest 0.4% in January.

Eye on the Month Ahead

Any suggestion of bailout package problems that might spell trouble for the Greek bond payments due March 20 could spook global markets. Investors also will watch to see if leadership in the equities markets remains with companies that benefit most from the early days of a recovery, and whether that recovery will pick up steam.

Key dates and data releases: auto sales, personal income/spending, U.S. manufacturing, construction spending (3/1); factory orders, U.S. services sector (3/5); labor productivity/costs (3/7); unemployment/payrolls, balance of trade (3/9); retail sales, Federal Open Market Committee announcement (3/13); import/export prices (3/14); wholesale inflation, international capital flows, Philadelphia Fed/Empire State manufacturing surveys (3/15); consumer inflation, industrial production, quadruple witching options expiration (3/16); housing starts (3/20); home resales (3/21); new home sales (3/23); home prices (3/27); durable goods orders (3/28); final Q4 GDP (3/29); personal income/spending (3/30).

Data sources for non-equities performance: U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold, NY close); Oanda/FX Street (currency exchange rates). All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. Equities data reflects price changes, not total return.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indexes listed are unmanaged and are not available for direct investment.

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