TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

January 2012

Quarterly Insights

Fourth Quarter 2011

EXECUTIVE SUMMARY

Stocks Recover In Fourth Quarter, Treasury Bonds Rise

In the Fourth Quarter, the domestic S&P 500 Index rallied 11.82% and finished the year up a modest 2.11%. Other markets completed the quarter robustly but lagged significantly for the full year. Solid economic performance continued as GDP growth and employment improved. S&P 500 earnings grew by 16% from 2010, eclipsing the previous 12 month earnings record. The Barclay's bond index continued its 2011 ascent, rising 1.18% in the Fourth Quarter.

We Believe The S&P 500 Index Will Rise 12%-15% In 2012

We are bullish for 2012 and believe the S&P 500 Index will rise 12% to 15%. As opposed to 2011, we believe this is the year that the uptick in the U.S. economy will overshadow European debt concerns. Three factors should drive up the stock market: the economic recovery, improved investor sentiment, and market multiple expansion.

We do not share the same enthusiasm for bonds. Interest rates are so low that bonds have a negative real rate of return. With high U.S. debt levels, there is the real threat of rising interest rates, which would cause bond prices to fall.

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2011 - The Year In Review

2011 Was An Unusually Tough Year To Navigate

We reflect on 2011 as a year of two opposing themes: serious debt concerns in Europe versus signs of economic improvement in the United States. From a market performance standpoint, European debt concerns overshadowed the uptick in the U.S. economy. Investor pessimism far out-weighed optimism. From a portfolio management standpoint, 2011 was an unusually tough year to navigate due to regional disparity, sector disparity and market volatility.

1. Regional Disparity

The U.S. sat on top of the world in 2011, buoyed by strong corporate earnings and investors' preference to move into the perceived safety of larger companies. This happened despite a downgrade in the U.S. credit rating. Other world markets were much more adversely affected by the European debt crisis and fears of slowing economic growth in China. Stock exposure other than U.S. large cap was likely detrimental in 2011.

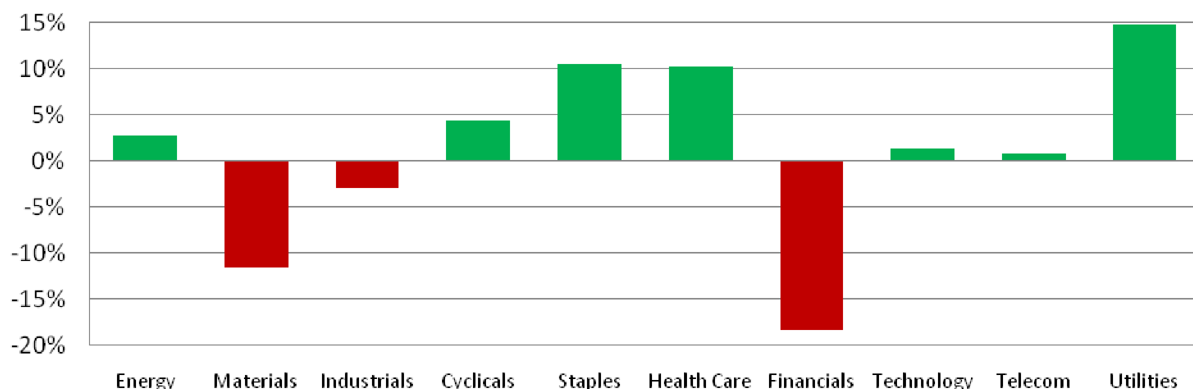
Equity Index Performance

Index	2011
S&P 500 (Domestic)	2.11%
Russell 2000 (Small Cap)*	(5.50%)
MSCI EAFE (Foreign)**	(11.12%)
MSCI Emerging Markets	(18.11%)
MSCI EMU (European Monetary Union)	(18.40%)
MSCI Japan	(16.21%)

* Performance data does not include dividends ** Europe, Australia and the Far East

2. Sector Disparity

Portfolio performance success also hinged on sector weightings. Financials (led by the major banks) was the sector to avoid in 2011. Perhaps surprising to many, the Materials sector (mining stocks) also fell considerably despite a 10% rise in the price of gold. The defensive sectors (Staples, Health Care and Utilities) fared well. Since these sectors comprise less than 30% of the S&P 500 Index, benchmark out-performance was tough.

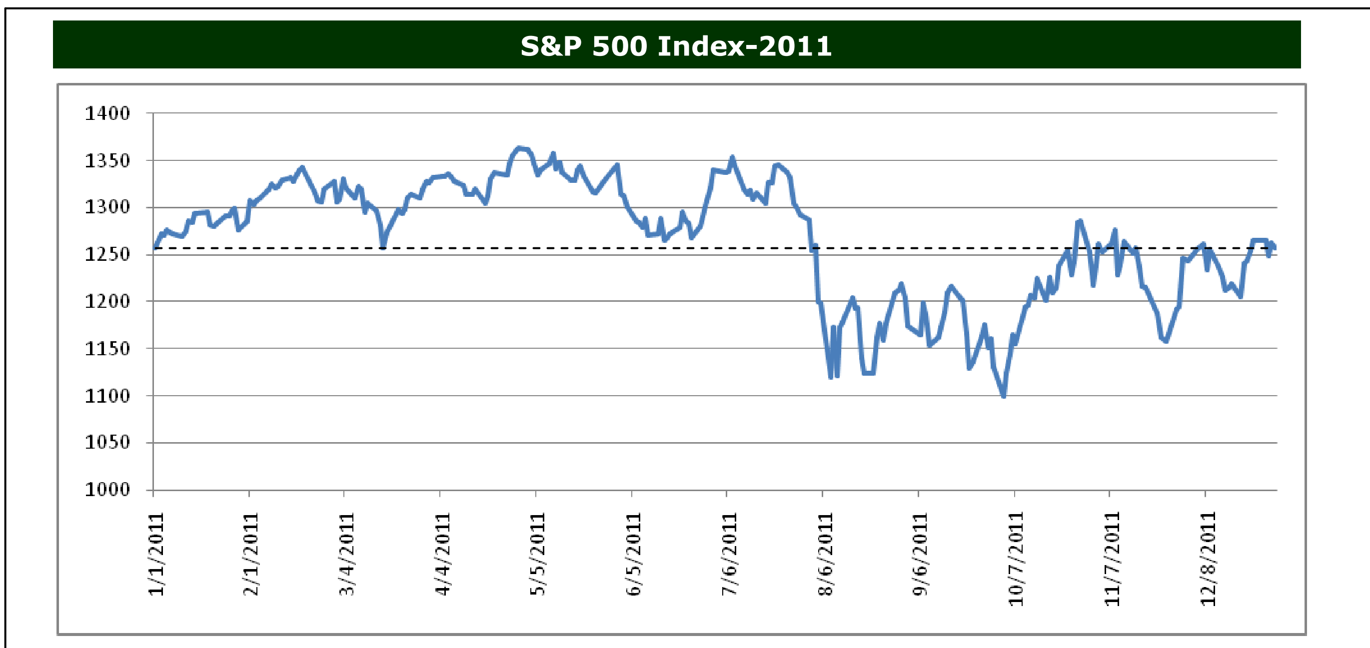


3. Market Volatility

There was high daily market volatility in 2011, yet the volatility was uncharacteristically directionless for the year. The S&P 500 Index (excluding dividends) was completely flat, ending exactly where it started. The high for the year was only 24% higher than the low (the average range for the last 20 years was 31%).

According to the Wall Street Journal, there were more days in the second half of 2011 when 90% of the S&P 500 stocks moved in the same direction than there were from 2002 through 2006. Because of this, there were not significant opportunities for swapping one stock for another and coming out ahead.

In addition, there was significant potential peril in trying to jump in and out of the market versus staying put. Imagine waiting until July 22 to buy in to the market, only to see it drop almost 17% over the next 11 trading days. Many investors fled the market in early October, only to see the market rise significantly in the quarter.



Assessment Of Our 2011 Portfolio Strategy And Performance

Most money managers had an exceptionally difficult 2011. Many advocated significant foreign exposure, riskier small-cap companies and “value stocks” (the Financials sector). Others tried to time the market in terms of entry and exit. None of these strategies worked. As a result, 40% of money managers lagged their benchmark by greater than 2.5% and 20% of money managers lagged their benchmark by greater than 5.0%.

Many aspects of our 2011 portfolio strategy proved sound. Over 90% of our stock exposure was U.S.-based with considerable emphasis on large-cap stocks. Aside from a short period where we went to a 10% to 20% cash exposure (depending on account type), we maintained a disciplined asset allocation and did not get side-swiped (as many others did) trying to time the market. We over-weighted Staples and Health Care, and had little exposure to the large U.S. banks that got pummeled.

We slightly lagged our benchmark S&P 500 Index. Reasons for the lag included a small foreign exposure and a few stock disappointments. While we always endeavor to beat our benchmark, we were much more right than wrong with our overall portfolio strategy. Staying close to the best-performing benchmark was a victory in a tough year globally. For our balanced portfolios, bonds enhanced performance.

2012 - Looking Ahead

We Believe The S&P 500 Index Will Rise 12% to 15% In 2012

We are bullish for 2012 and believe the S&P 500 Index will rise 12% to 15%. This may appear to be a bold prediction in the face of an unresolved European debt crisis and U.S. election uncertainty. But there are good things happening in our backyard. As opposed to 2011, we believe this is the year that the uptick in the U.S. economy will overshadow European debt concerns. Three factors should drive up the stock market: the economic recovery, improved investor sentiment, and market multiple expansion.

1. Economic Recovery

There are many signs of an improving economy. Real gross domestic product (GDP) - the output of goods and services produced by labor and property located in the U.S. - increased at an annual rate of 1.8% in the Third Quarter (source: Bureau of Economic Analysis). The unemployment rate has decreased from 9.1% at the beginning of 2011 to 8.5% at the end of 2011. In the six-month period ending November 2011, the Leading Economic Indicator (LEI) index increased 2.8%, an annualized rate of 5.6% (source: The Conference Board).

Consumer demand, the main US economic driver, has stabilized. Real personal consumption expenditures increased 1.7% in the Third Quarter compared to an increase of 0.7% in the Second Quarter. Through the recent economic growth, inflation has been normal. Excluding food and energy, the consumer price index (CPI) has increased 0.1%, 0.1% and 0.2% over the last three months (source: Bureau of Labor Statistics).

2. Improved Investor Sentiment

After a very rough Third Quarter, we stated in our Quarterly Insights October 2011 (page 5) that there were "three factors we believe will improve confidence":

1. Improved outlook regarding the European debt crisis
2. Continued economic stability
3. Upward market momentum

Indeed these were major factors in the Fourth Quarter as the S&P 500 Index recovered and pushed into positive territory for the year. We see these factors continuing to play out in 2012. The Conference Board Consumer Confidence Index rose in November and December. The trend should continue. Investor sentiment should improve and catapult the market.

3. Market Multiple Expansion

The earnings multiple of a stock, also called the price/earnings (P/E) ratio, is the share price divided by the earnings per share. The higher the earnings multiple, the more investors are willing to pay for future growth. For a long time, we have felt that stocks are underpriced as evidenced by an historically low current P/E ratio of 14. Although we anticipate a slight slowdown in earnings growth as companies have squeezed costs to the limit, we anticipate higher P/E ratios (a market multiple expansion) as investors will pay more for future growth. Slightly lower earnings coupled with higher P/E ratios will translate to higher stock prices.

Portfolio Strategy - Stay The Course Right Now And Adjust Later

At this time, we do not see a reason to deviate from our stock strategy. We still view the U.S. stock market as the one with the most upside potential, and see little reason to enter Europe or Emerging Markets. In our opinion, it is best to maintain a large cap focus. And we do not feel major shifts in our sector exposure are warranted right now. Conditions will change. We will adjust the portfolio accordingly throughout the year.

Stock Market Spotlight

Strong Finish For A Tumultuous Year

In the Fourth Quarter, the domestic S&P 500 Index rallied 11.82% and finished the year up a modest 2.11%. Other markets completed the quarter robustly but lagged significantly for the full year. Solid economic performance continued as GDP growth and employment improved. S&P 500 earnings grew by 16% from 2010, eclipsing the previous 12 month earnings record. We reiterate that we have a Confidence Crisis and not an Economic Crisis.

Changes Afoot In Asset Allocation

Weak demand for U.S. stocks has been a growing story over the past decade. Some of this demand has been siphoned off as large institutional investors have significantly changed strategies.

Institutional Asset Allocation Over The Past Decade

Allocation	2000	2005	2010
Stocks	60%	60%	47%
Bonds	30%	24%	33%
Alternative Investments	7%	15%	19%
Cash	3%	1%	1%

Source: Towers Watson

Global pensions contain $26.5 trillion in assets. This means that $12.5 trillion is invested in stocks. In 2000, 63.4% of global pension equities were invested in U.S. stocks. In 2010 that number declined to 57.8% for a total U.S. stock investment by pensions of $7.2 trillion. Using 2005 asset allocations, you would expect pension investments of $10.1 trillion. There is nearly $3 trillion of investments that have been diverted just on the pension side.

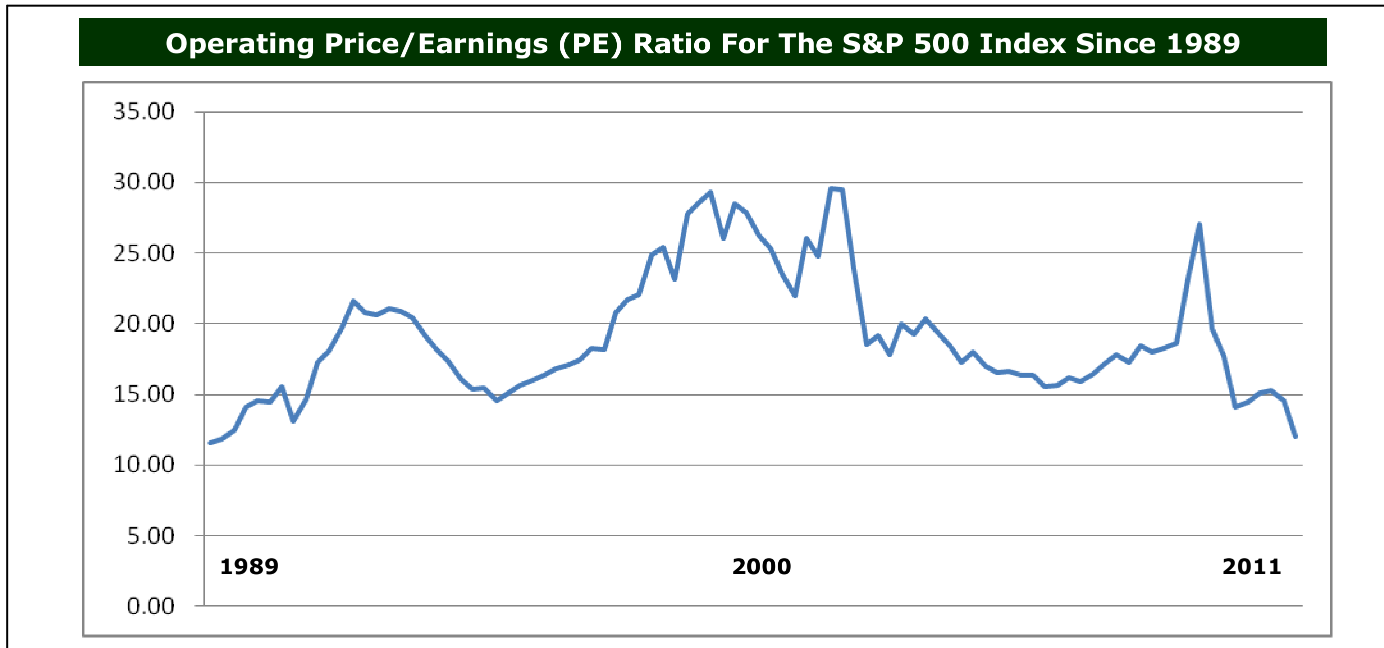
Retail investors have also changed allocations. For years the largest ETF (exchange traded fund) was the SPYder (symbol: SPY). It was a way of getting ownership of 500 US corporations with one purchase. Investors have nearly $90 billion invested in it. Earlier this year the Gold ETF (symbol: GLD) eclipsed it before falling as gold prices fizzled near the end of the year.

Alternative investments have also been on the rise. Clearly, more investors are purchasing gold, bonds, and foreign stocks , along with real estate investment trusts (REITs), private equity funds and managed futures.

Another factor that has lowered stock demand is consumer debt repair. The Great Recession of 2008 has caused many to revisit personal finances. The Federal Reserve keeps track of personal finance statistics. One of note is the Financial Obligation Ratio (FOR) which incorporates the better known Household Debt Ratio. The ratio is a measure of total debt payments as a percentage of disposable income. The FOR peaked in Q3 2007 at 17.55%. It has steadily fallen to 14.42% as of Q3 2011, a significant change in behavior. People have reduced this ratio by shedding assets, reducing purchases and refinancing debt at lower rates.

The Future Looks Bright For Stocks

The market valuation for the S&P 500 index is $11 trillion. The historical average Price / Earnings ratio (PE ratio) since 1989 is 25.23Xs while the current ratio is 13.99Xs. The PE, also known as the market multiple, means the market is worth about $3 trillion less than normal valuations would suggest. Ironically, this number closely mirrors the amount diverted from traditional equity investors.



Are these investment diversions from the market secular or cyclical? Most think there are secular changes in the market place that are causing long term issues for stocks. They cite ten years of poor returns and an economy that has barely rebounded from recession.

We agree that there are secular issues but many of them are very positive for the stock market. The fact that our population is getting older means that more investors need to prepare for retirement. Increasing wealth of the emerging markets will create even more investors.

Lower volatility and better returns will start a positive feedback loop. We think this will occur as more investors believe in the recovery. Stocks have been the best investment going by far for the last century and we think this will be the case again as we look to the future.

Bond Market Spotlight

We View Bonds As Risky

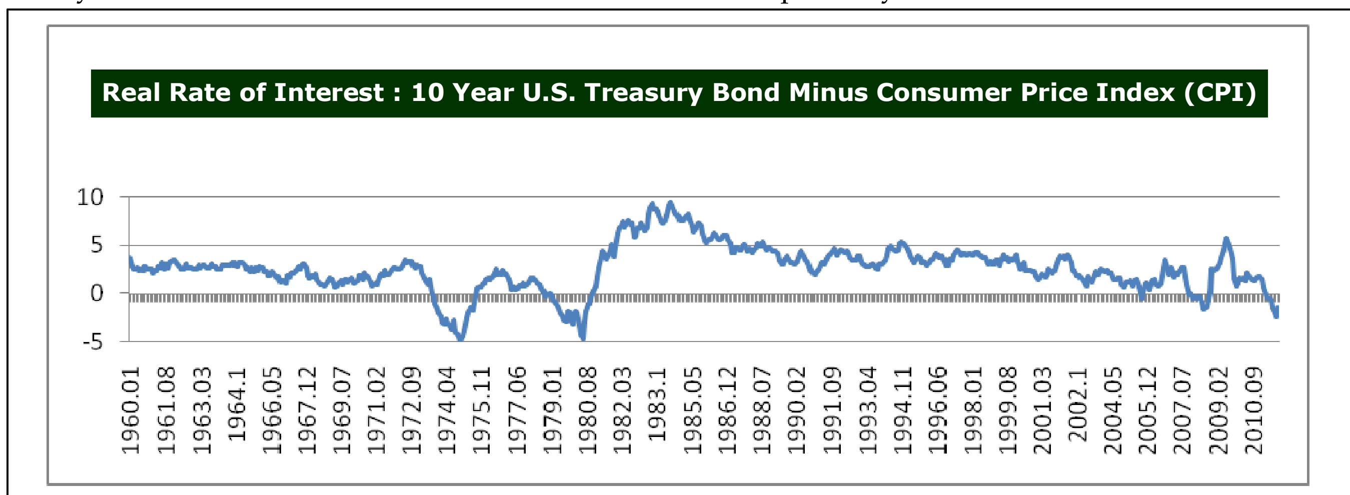
The Barclay's Capital U.S. Government / Credit Bond Index, a broad-based representation of bond performance, returned 1.18% in the Fourth Quarter and finished the year up an exceptionally strong 8.72%. While this was tremendous, most of this return was generated from the decline in interest rates for long-term government bonds. Yields fell from 4.34% to 2.89% for the 30 year US Treasury, causing a total return of over 20% (bond prices rise when yields fall).

We believe that bonds are the riskiest they have ever been. Interest rates are low, giving very minimal returns. Inflation is slightly above normal, causing yields to offer negative real returns (the yields are not keeping up to inflation).

Interest rate sensitivity is at record levels in the midst of high U.S. debt. With high U.S. debt levels, there is the real threat of rising interest rates (bond investors must be compensated for higher levels of risk). At an extreme level, this is what has happened in Greece and Italy. Duration is a measurement of interest rate sensitivity. The current duration on the 30 year US Treasury bond is 13 years. This means that the value of this Treasury should fall by 13% with a 1% rise in interest rates. Even though these bonds have performed well recently, we view them as way too risky to purchase.

The 10 Year U.S. Treasury Bond Has A Negative Real Rate Of Return

Even the 10 Year U.S. Treasury bond is unattractive. The graph below illustrates that the interest rate on the 10 year bond is less than the inflation rate. This is an exceptionally rare event.



Investors May Not Seek The Safe Haven Of Bonds With The U.S. Economic Recovery

U.S. Treasury bonds are seen by the world as a safe haven from troubles in Europe and ongoing market volatility. We expect a rising stock market in the midst of a continued U.S. economic recovery. Increased investor confidence should lead to lower bond demand as investors would seek higher returns with stocks. An economic recovery would also pressure inflation rates, which in turn would cause interest rates to rise and bond prices to fall. Although we view stocks as more attractive than bonds at this time, we hold bonds where warranted as part of a disciplined asset allocation. At this time, we advocate short duration bonds and interest hedge instruments to reduce interest rate risk, as well as corporate bonds.

Your Portfolio

The stock market recovered nicely in the Fourth Quarter. For the most part, we maintained our existing stock positions during the rally. We saw no need to adjust our strategy, nor do we see a need right now. Stocks were sold on a selective basis for year-end tax considerations. After an unusual flurry of trades in the Third Quarter, it was good to settle down.

We continue to take steps to protect the bond component of your portfolio (where applicable) from the threat of rising interest rates. In late October, we bought a partial hedge against rising interest rates (and subsequent bond price declines). The security purchased was the I-Path Pure Beta ETN Fus 5 year Bear (symbol: DFVS). This fund profits when bond yields increase.

2011 was not an easy year for us to navigate, and we know it was not an easy year for you to watch your portfolio. No doubt the Fourth Quarter was a relief to you. Thank you for your patience and confidence.

We see better times ahead in 2012. The stock market has positive momentum. The U.S. economy continues to improve. There will be clarity regarding the U.S. political landscape with the November election. And we are optimistic there will also be clarity regarding a viable solution to the European debt woes.

Over the next few months, we anticipate further adjustments to both the stock and bond components of your portfolio as we anticipate rising investor confidence and a continued market upturn. Stay tuned for updates.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

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Disclaimer

The information presented herein is intended for informational purposes only. All views are subject to change based on updated indicators. The recommendations made in this publication are made without regard to individual suitability. Investors should consider their own needs and objectives before making any investment decision.

Commentary in this review reflects our portfolio strategy. Many of our clients have different objectives and circumstances which are reflected in unique portfolio considerations. Please note that accounts may not contain all elements of the strategy discussed here. Additionally, individual client customizations and start dates may preclude certain elements of this strategy from being implemented.

Past performance is no guarantee of future results. A risk of loss is involved with investments in stock markets.