Bob Carlson's
RETIREMENT WATCH
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2012: The Year of Resolutions?

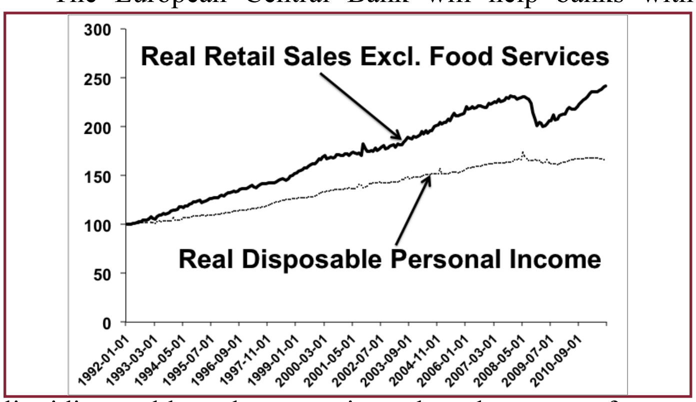
Market Watch

Look for 2012 to be the year when many issues that disrupted economies and markets in recent years are resolved. Policymakers globally have been "kicking the can down the road." They're nearing the end of those roads, so in 2012 much uncertainty facing investors should be answered. Yet, it's still not time to relax and load your portfolios with risky assets. The answers to some of the questions might not have pleasant consequences, at least initially, and we have to ride over more bumpy roads.

In 2012 we'll know if the European sovereign debt crisis will spiral out of control or will be an orderly deleveraging. The latest plans announced the week ending Dec. 9 relieved the markets but didn't solve many problems, and the markets ignored several holes in the plans for at least a day.

The plan for a tighter fiscal union over the long term is important, but final decisions on it are a long way off.

The European Central Bank will help banks with liquidity problems by accepting a broader range of assets as collateral for loans. But it won't print money, as the Federal Reserve did, in a quantitative easing program.



Governments and banks in Europe still are insolvent. At best, the current arrangement muddles through the next 12 to 18 months. After that, the cash in the bailout fund is gone and there's still plenty more debt to be bailed out.

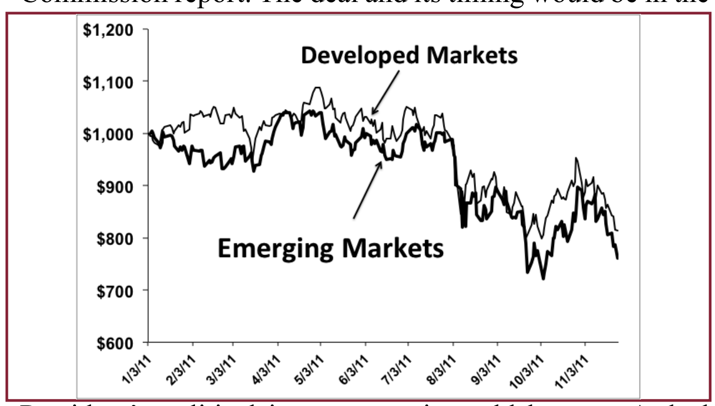
The weak capital positions of European banks means they have less money to lend. The indebted governments will implement more austerity programs. Austerity, however, reduces economic growth and makes paying debts harder, not easier. The result is deleveraging in Europe and less credit available around the globe. Europe likely is already in a recession. The question is how deep it becomes.

In early 2012 we'll learn if a new recession is in the offing for the U.S. A slew of usually-reliable warning signals began flashing red in August and September 2011. Then, the economic data generated positive surprises. It's too early to say the recession risk is behind us.

The data also turned positive in 2007 for a few months before the economy tumbled into a recession. Even the recent positive data had red flags. While retail sales growth has been strong, household incomes did not keep up with sales. Nominal wages, real wages, hourly earnings, and hours worked all declined while sales were rising. Credit increased a modest amount during the period, but generally Americans reduced savings to spend. That can't continue for long. I anticipate a decline in consumer spending.

Business spending and investment also supported the U.S. economy the last three years. Yet, surveys indicate businesses plan to reduce their investments in 2012, and they'll certainly do that if household spending falls. Slower growth in emerging economies also should cause a reduction in business U.S. investment and profits.

A game changing wild card would be for U.S. policymakers to agree to a big deficit reduction deal over the summer along the lines of the Simpson-Bowles Commission report. The deal and its timing would be in the President's political interests, so it could happen. A deal would trigger optimism and a strong rally in many markets.



The third question to be answered in the next few months is: Will the emerging economies have a "soft landing" or will their growth rates will continue to slide? The measures they used to reduce growth over the last year could be compounded by the effects of the European deleveraging. I don't believe emerging economies are delinked from developed economies, so I'm also cautious about emerging markets for coming months.

Global investment markets took most investors on a roller coaster in 2011, exhibiting two starkly different patterns, with high volatility packed into each period.

Through the end of July most markets traded in fairly narrow ranges. U.S. stocks, commodities, and gold were the winners through that period, because investors believed the European debt crisis was in the past and U.S. growth was sustainable. With the exception of gold, those assets weakened in April and settled into a lower trading range before falling sharply in August. That's when U.S. economic data began producing a number of negative surprises and European debt problems resurfaced in the headlines.

Flight-to-safety assets soared after July: gold, the dollar, and treasury bonds. They generally held their gains through the rest of the year, though the ride became bumpy, especially for gold. Investment grade corporate bonds were steady, earning their interest for the year and maintaining their principal value.

The big loser for the year was emerging market stocks, a reversal of fortune for the big winner of the prior two years and headline-chasing investors. U.S. stocks and commodities didn't lose as much but were down for the year.

There's good news. The U.S. economy has been remarkably resilient in the face of all the problems and disruptions. Also, the negative events of the last part of 2011 caused many central banks to shift to expansionary from contractionary policies. Best of all, we're closer to the end of the process. Those are reasons to expect good growth in the future. RW

Focusing on the Keys to 2012 Profits

Portfolio Watch

"Europe, of course, will be the major focus for at least the first part of the year."

You need to focus on three key factors in 2012 when managing your portfolio. There will be a lot of other news, rumors, forecasts, and data, but those will be white noise. They might have short-term effects on the markets, but you shouldn't try to capture these moves or use white noise to manage your portfolio. Instead, focus on the big picture.

Europe, of course, will be the major focus for at least the first part of the year. As we discussed earlier in this visit and previous visits, deleveraging will continue and accelerate in Europe, and that's likely to keep a lid on growth there and in the rest of the globe. The issue will be whether the deleveraging is orderly or the sovereign debt situation spirals out of control and disrupts markets.

In the U.S. we're still on recession watch. Some analysts believe the weak data of late summer 2011 was a brief pause and the recession risk is behind us. I'm not convinced, as I explain in this month's Market Watch

Also in the U.S., as the year goes on we want to keep an eye on the election. It's possible that before Election Day there will be a clear indication of how the race for President will turn out and also whether control of the Senate will switch parties. If winners become clearly early, that's likely to affect investor sentiment and influence markets for the last part of the year.

Gundlach Hunkers Down

You might not expect to hear bearishness from a fund manager who's earned over 9% in 2011 and is generating a yield over 8%. But Jeffrey Gundlach of **DoubleLine Total Return Bond** says investment opportunities with a reasonable margin of safety are hard to find and he's been making the fund's portfolio more conservative. The fund was over 14% in cash as of the end of October (the latest data available), and the treasury bonds purchased earlier in the year are mostly sold.

Gundlach is most concerned about the European debt crisis, believing it has the potential to disrupt the markets in much the way the bankruptcy of Lehman Brothers did. He also sees no resolution of the fiscal problems in the U.S. because of the power split in Washington and the failure of either party to move beyond campaign slogans.

The fund is focused on different mortgage securities. The bulk of the portfolio is invested in various agency mortgage securities. Agency mortgages are those guaranteed by one of the government or quasi-government agencies. They are safe but have low yields. About a third of the portfolio is in residential non-agency mortgage securities. These securities generally were purchased at deep discounts to face value. They generate high yields as the mortgages are paid or refinanced. Even if a high percentage of them default, the fund will make money overall because of the distressed purchase prices.

Other than that, Gundlach doesn't see much value or opportunity in the markets. He believes this strategy will keep the net asset value of the shares fairly steady while earning a high yield.

There are two share classes. The DBLTX shares have a minimum investment of $100,000 ($5,000 for IRAs). Or you can buy the DLTNX shares with a minimum $2,000 ($500 for IRAs), which have a little higher expense ratio.

A lot of portfolio shifting has been taking place at **PIMCO All Asset All Authority**. As longtime readers know, the fund is able to invest in any of the strategies offered by PIMCO, including those offered only to institutional investors, and can take short positions against some assets. Manager Rob Arnott manages the portfolio using his own valuation-based models and the secular outlook that guides PIMCO's strategies. The portfolio's positions change as valuations and outlooks change.

Arnott believes that the October rally in most assets brought them to historical normal prices, so few values remained in the markets. The fund had been increasing its allocation to stocks, especially U.S. stocks, as those assets declined in August and September. But it stopped the accumulation and then began reducing equity positions as markets rallied in October. Arnott also believes there is an elevated probability of a recession in the U.S., so he wants small allocations to stocks.

Two areas the fund has favored over the past year or so and continues to favor are emerging economies and inflation hedges. In the last few months the fund increased allocations to these two categories and reduced all other positions. Arnott believes the emerging economies offer higher growth and better fiscal situations than the developed economies, and that investments there are less correlated with the developed world than in the past.

The fund wants to retain a strong inflation-hedging position. It sold its holdings of Treasury Inflation-Protected Securities (TIPS), because yields on those declined too far. Instead, the fund increased allocations to real estate investment trusts and commodities.

The fund has different shares classes. I recommend the D shares for most investors (ticker: PAUDX). There's a $1,000 minimum investment and a 0.25% 12b-1 fee with a 1.38% expense ratio. Institutional (PAUIX) and P shares (PAUPX), which charge lower fees, are available when more than $1 million is invested. The C shares (PAUCX) are expensive (a 1% deferred fee, 1% 12b-1 fee, and regular expenses) as are the A shares (PAUAX) (a 5.5% front-end load and 0.25% 12b-1 fee along with expenses). If your broker offers the load waived A shares (PAUAX.LW) these are a good deal with a 0.25% 12b-1 fee and 1.58% expenses.

"Current conditions cluster with periods such as May 1962, October 1973, July 2001, and December 2007, all which produced 10-20% market losses in extremely short-order," wrote John Hussman of **Hussman Strategic Growth**. The stock market and economic data are similar to those periods, so investors should be cautious. He maintains that the stock markets are overvalued and the economy very likely will enter a recession in 2012. He also believes, based on history, that today's record profit margins are likely to recede in the near future.

The fund's portfolio generally holds about 130 stocks, purchased based on favorable prices relative to their growth rates. It also can use options to either leverage the stock positions, when the market outlook seems favorable, or hedge the stocks, when the outlook is unfavorable. Options positions between the two extremes also can be taken. For some time the fund has been fully hedged or close to it. The current position is what Hussman calls a "hard negative condition."

Hussman makes clear he's not forecasting near-term market behavior. Instead, he's looking at historical data that he considers relevant and using that to estimate a market return that has occurred on average when similar conditions existed. Then, he uses that information to decide how much market risk to accept today. His studies convince Hussman that conditions similar to today's have been hostile to investors.

Because of the hedging, the fund generally increases when stock indexes decline and vice versa. It's a good fund to have in these volatile markets.

Gold is consolidating. It has a pattern of surging, falling a bit, and then consolidating at a new level. For example, it had a major surge that peaked in 2008. The price declined, and

Sector Portfolio

Fund	Allocation	Ticker	4-Wk Return	Max. Buy Price	Sell Below
Doubleline Total Return	48.0%	DBLTX	0.24%	N/A	N/A
PIMCO All Asset All Auth	20.0%	PAUDX	-1.60%	N/A	N/A
Hussman Strategic Growth	17.5%	HSGFX	-0.24%	N/A	N/A
Wisdom Tree Yuan	5.0%	CYB	-0.43%	N/A	N/A
Tocqueville Gold	5.0%	TGLDX	-4.08%	N/A	70.00
Vanguard L-T US Treas	4.0%	VUSTX	-0.80%	N/A	12.15

**Returns are as of December 9, 2011*

We remain conservatively-positioned as we wait for opportunities with margins of safety to develop. Continue to follow the prices of **Tocqueville Gold** and **Vanguard Long-Term U.S. Treasury Bond**. Sell either if its closing price falls below the "sell below" price. Put the proceeds in a money market fund until receiving new recommendations in our next issue. Hold all other positions for the month.

Balanced Portfolio

Fund	Allocation	Ticker	4-Wk Return	Max. Buy Price	Sell Below
Doubleline Total Return	53.0%	DBLTX	0.24%	N/A	N/A
PIMCO All Asset All Auth	15.0%	PAUDX	-1.60%	N/A	N/A
Hussman Strategic Growth	15.0%	HSGFX	-0.24%	N/A	N/A
Wisdom Tree Yuan	6.0%	CYB	-0.43%	N/A	N/A
Tocqueville Gold	6.0%	TGLDX	-4.08%	N/A	70.00
Vanguard L-T US Treas	5.0%	VUSTX	-0.80%	N/A	12.15

**Returns are as of December 9, 2011*

The portfolio remains balanced and diversified with mostly defensive positions. Our offensive positions are in **Tocqueville Gold** and **Vanguard Long-Term U.S. Treasury Bond**. Note the "sell below" prices for those two funds and sell either if it's closing net asset value is below the price. Invest the proceeds in a money market fund until receiving new recommendations in our next issue. The diversification should allow the portfolio to generate solid returns without much volatility regardless of the trends in the markets and the economy.

then the metal was in a trading range for about 16 months. We held **iShares Gold Trust** and sold it during the correction.

Recently we purchased **Tocqueville Gold** because shares of gold mining companies lagged gold during the 2011 rally. That made the shares a bargain compared to gold. We plan to hold them during this consolidation stage, because we don't know when it will end, unless the price closes below our sell signal. When gold declines to the $1,500 to $1,600 per ounce range and moves closer to $1,500, we'll probably increase our holdings of either gold or the mining shares.

Long-term U.S Treasury bonds had a wild 2011. We purchased them through **Vanguard Long-Term U.S. Treasury Bond** fund around June because we didn't believe the conventional wisdom that economic growth in the U.S. was sustainable. We earned solid returns as the economy slowed and interest rates declined through the summer and early fall. The fund corrected in October as investors concluded the probability of a new recession was approaching zero, and then rose a bit before settling into a trading range.

We're keeping the fund and our sell signal. I don't expect a burst in economic growth and believe a recession or recession scare is more likely. The position also serves as a hedge against a new crisis or escalation of the European problem. When there's a sudden flight to safety, the fund rises. We'll hold it until our sell signal is triggered or the risk of recession falls significantly.

We've been expecting the Chinese to allow their currency to increase more rapidly against the dollar than they have the last few years. By maintaining their currency's relatively fixed value against the dollar, the Chinese effectively are importing U.S. monetary policy. That's not a good idea, since the two economies have very different growth rates. China doesn't need the easy money policy of the U.S.

We seek to capture this opportunity through **WisdomTree Dreyfus Chinese Yuan** fund, an exchange-traded fund. Part of the fund is invested in contracts that pay the change in the two currencies over the contract term. The rest of the fund is invested in U.S. money market debt. The result should be the equivalent of owning a money market fund denominated in the Chinese currency.

The return has been modest in 2011, with increased volatility in the second half of the year. We evaluate the position as new data emerges about the Chinese economy and also compare it to other opportunities.

Income Growth Portfolio

Fund	Allocation	Ticker	4-Wk Return	Max. Buy Price	Sell Below
Doubleline Total Return	53.0%	DBLTX	0.24%	N/A	N/A
PIMCO All Asset All Auth	10.0%	PAUDX	-1.60%	N/A	N/A
Hussman Strategic Growth	17.5%	HSGFX	-0.24%	N/A	N/A
Wisdom Tree Yuan	7.0%	CYB	-0.43%	N/A	N/A
Tocqueville Gold	7.0%	TGLDX	-4.08%	N/A	70.00
Vanguard L-T US Treas.	5.0%	VUSTX	-0.80%	N/A	12.15

**Returns are as of December 9, 2011.*

We haven't changed our recommendations or the "sell below" prices for **Tocqueville Gold** and **Vanguard Long-Term U.S. Treasury Bond**. Sell either fund if its closing price falls below the "sell below" price. Put the sale proceeds in a money market fund until receiving new recommendations in our next issue. Hold the rest of the recommended funds. These give us a diversified, balanced portfolio that should perform well in almost any market or economic environment.

Searching for Income Opportunities

Followers of the **Retirement Paycheck** portfolio will note the strategy remains concentrated in one fund, **DoubleLine Total Return Bond**. I continue to look for opportunities to diversify the portfolio in funds that are consistent with our goals of achieving a yield of around 6%, having some potential for capital gains, maintaining an adequate margin of safety, and having less volatility than the S&P 500. DoubleLine has exceeded those goals.

Among high-yielding alternatives, dividend-paying stocks are heavily touted by many market analysts these days. They do have advantages, the prime ones being that they yield more than 10-year treasury bonds and that most companies increase their dividends each year. The disadvantage is that they're still stocks. They won't decline as much as the indexes in declines, but they will decline more than enough to take offset the yield advantage.

High yield bonds and preferred stocks have become more attractive in recent months, but their yields aren't enough to overcome their potential losses in a recession. As long as the economic data have us on recession watch, it's not time to add positions in these assets. The same factors make me cautious about real estate-related investments, such as real estate investment trusts.

Closed-end funds tend to invest in the assets just mentioned. The CEFs have the additional risk of being leveraged in most cases. That's a good thing when you buy near the bottom of a downturn, but I don't think this is that time.

Emerging market bonds have attractive yields and are approaching attractive prices. These bonds have the additional advantage of

Retirement Paycheck Portfolio

Fund	Ticker	Allocation	12-mo. Yield	Max. Buy Price	Sell Below
Doubleline Total Return	DBLTX	100.0%	8.41%	N/A	N/A

**Returns and yields are as of December 9, 2011*

We're going to continue with our "one fund" portfolio for at least another month. I explain why in this month's visit. The fund should continue to pay high interest and maintain a very stable net asset value regardless of changes in interest rates or the economy.

offering a hedge against the dollar. But emerging markets are not independent of developed economies yet. With economies on the edge in Europe and the U.S., emerging market debt still presents more potential risk than reward.

The most attractive of the income-oriented investments right now are master limited partnerships. These own energy infrastructure, mainly pipelines, and are paid for use of the infrastructure regardless of what's happening with energy prices. I believe their prices are elevated at this point after a rapid rise in October. Tax-exempt bonds hold some attraction for investors in high-tax brackets, though the after-tax yields generally won't approach 6%. They should review the financial stability of the issuing government carefully, buy new issues and plan to hold them to maturity to maximize income and avoid loss of principal due to interest rate fluctuations.

I regularly review all these assets. With the economy in a vulnerable position, there's too much risk in income alternatives right now, and some are particularly vulnerable as investors seek higher yields without paying much attention to prices and risk. For now, DoubleLine offers the best opportunity to meet our goals, but we continue to monitor the markets for other opportunities.

Our Reliable Buy-and-Hole Portfolio

The "hedge fund" portfolio of mutual funds continues to generate solid long-term returns with far less volatility than the stock market indexes.

Long-time readers know the "hedge fund" portfolio is mostly a buy-and-hold portfolio of no-load, low expense mutual funds that have low correlations with the S&P 500 yet have comparable long-term returns. The funds also have low correlations with each other. Most of the time, some funds are doing well and others aren't. That gives the portfolio a much smoother, less volatile ride than traditional portfolios, without your having to time entries to and exits from the markets. The portfolio's delivered a return under 1% for the last 12 months ended Dec. 9, just behind the S&P 500's 1.6% return but with much less volatility.

Over the twelve months ended Dec. 9, only **Third Avenue Value** had a negative return, which was 20.52%. TAVIX is a deep value, go anywhere fund. While its origins are in small company stocks in the U.S., it can purchase stocks, bonds, or other types of securities of companies almost anywhere in the world. The fund will purchase a security that it believes sells at a deep discount to the net assets backing it. Lately the fund located a lot of values in Asia. Those markets were very volatile in 2011 and fell more than the U.S. indexes, so the fund is the laggard in the portfolio these days.

Wintergreen, managed by David Winters, has a similar strategy on paper but holds different investments and generated different returns. Its 12-month return is about 2.55%. Winters says he is finding some values in large European companies as well as Asia and the U.S. He also has a healthy amount of cash.

We had two big winners in the portfolio.

American Century International Bond is our hedge against the dollar. It buys primarily government debt of developed countries in Europe and of Japan without hedging the currency back to the dollar. While interest income and capital gains and losses are potential return drivers, the main source of returns for the fund is the fluctuation in the dollar's value. The dollar generally declined against the currency positions held by the fund, so it returned almost 7% over 12 months.

A very different strategy resulted in a 6.49% return for **Cohen & Steers Realty Shares**. It purchases real estate investment trusts, stocks of companies that own and operate real estate. While the outlook for U.S. housing remains bleak, many sectors of commercial real estate performed well in 2011. REITs probably are fairly valued to overvalued at this point and will decline at the first sign of economic weakness, but the return for 2011 was strong.

High yield bonds generally track the stock market indexes more than the bond indexes. In 2011 they held up better than the indexes. **Price High Yield** was much less volatile than stocks, declined less than the indexes during downturns, and recovered faster to previous highs. It did this while generating a yield that recently came to over 8% over 12 months.

Some of our balanced funds deserve special note. These funds not only are diversified, but the managers change the asset allocation to capture market opportunities or avoid problems. Few funds do this tactical asset allocation well. **Berwyn Income** (now open to new

"Hedge Fund" Mutual Fund Portfolio

Fund	Ticker	Alloc.	4-Wk Return	12-mo. Return
Hussman Strategic Growth	HSGFX	20%	-0.24%	1.10%
Third Avenue Value	TAVFX	10%	-5.08%	-20.52%
Price High Yield	PRHYX	11%	0.24%	2.09%
Oakmark Equity & Income	OAKBX	11%	2.19%	2.99%
FPA Crescent	FPACX	11%	0.85%	4.60%
PIMCO All Assets D	PASDX	11%	-1.08%	3.07%
Berwyn Income	BERIX	11%	0.45%	3.30%
Cohen & Steers Realty Sh	CSRSX	5%	0.68%	6.49%
Wintergreen	WGRNX	5%	-0.64%	2.55%
Am Cent Intl Bond	BEGBX	5%	-1.31%	6.91%

**Returns are as of December 9, 2011*

investors again) and **FPA Crescent** seem to have similar strategies on paper. They allocate between stocks, bonds, and cash. FPACX recently added gold to its repertoire. In bonds they tend to favor high yield bonds, and they're value investors. Yet, they usually have very different portfolios. We not only have diversification within these funds but also between them.

What they have in common is outstanding long-term returns with low volatility. For much of 2011 both sets of managers were cautious about U.S. stocks. They raised cash and bond allocations and reduced stock holdings. While they occasionally have periods when they are out of sync with the markets, their positions usually pay off for investors.

PIMCO All Asset also diversifies among asset classes, changing positions as valuations indicate. This fund covers a wider investment frontier than the other two balanced funds, being allowed to invest in any of the mutual funds offered by PIMCO. It's strategy and positions usually are similar to those of PIMCO All Asset All Authority, discussed earlier. In 2011 the fund emphasized inflation hedges and emerging markets with some tactical moves in and out of other asset classes.

Rounding the portfolio is **Oakmark Equity & Income**, another balanced fund. The fund with an excellent long-term record, usually keeps its allocation very close to 60% stocks and 40% bonds, but stocks can take up to 75% of the portfolio. Recently the fund was over 65% in stocks. It uses the Oakmark family's value approach in selecting both the stocks and bonds. In recent periods the fund has closely tracked the S&P 500 and hasn't generated the diversification it has in previous periods. RW

One-Stop Recommended Portfolios

Simplify your investment life and probably improve returns by concentrating your investments at one or two mutual fund firms or brokers. It will be easier to track and manage your portfolio.

The One-Stop Portfolios let you follow our margin-of-safety investment approach at the major fund companies and No Transaction Fee (NTF) programs. Those who want to use Exchanged-Traded Funds can follow our ETF portfolio.

Start with our recommended fund in the left column. Find the alternative fund in the same row in the appropriate column to the right.

There is not always a good alternative to one of my recommended funds. Then, consider paying a fee to invest in my recommended fund or opening an account directly in that fund. Other alternative funds are on the web site under Carlson's Choice mutual funds.

One-Stop Alternative Portfolios

RW Recommended Fund	NTF Funds*	ETFs	Fidelity	Price	Vanguard
DoubleLine Total Return	Dreyfus Basic US Mtg.	N/A	Mortgage Securities	GNMA	GNMA
Tocqueville Gold	Tocqueville Gold	iShares Comex Gold	Select Gold	New Era	Precious Metals & Min.
WisdomTree Dreyfus Chinese Yuan	N/A	WisdomTree Dreyfus Chinese Yuan	N/A	N/A	N/A
PIMCO All Asset All Auth	PIMCO All Asset All Auth	N/A	N/A	Capital Appr	Dividend Growth
Hussman Strategic Gr.	Leuthold Asset Allocation	NA	Trend	Value	Wellington
Vanguard L-T U.S. Treasury	Wasatch-Hois. US Treas	V'guard LT Govt Bond	Spartan LT Treas	US Treas LT	L-T U.S. Treasury

*Not all NTF funds listed are available from all the NTF programs. Some are more restrictive than others, and some funds do not want to be available on all the NTF programs.

Portfolio Performance

	Sector	Balanced	Income Growth	Retirement Paycheck	IWW ETFs
One Month	-0.29%	-0.03%	0.04%	0.33%	0.68%
Year to Date	3.56%	3.11%	4.52%	5.12%	19.67%
Last 12 Months	2.44%	2.39%	3.39%	6.38%	22.27%
3 Years*	8.73%	6.87%	9.08%	N/A	8.94%
5 Years*	0.58%	-0.43%	2.57%	N/A	6.33%
10 Years*	4.24%	4.29%	N/A	N/A	N/A
Compound Return	265.54%	249.23%	35.11	15.29	57.23%

**Annualized.*

All portfolio returns are total returns, including dividends and other distributions, as of November 30, 2011. An investor might incur taxes, transactions fees, and other costs that are not included in the calculations. The Income Growth Portfolio was begun in July 2001. The Retirement Paycheck Portfolio began Dec. 2010. The IWW-ETF Portfolio began December 2005. Other portfolios began Jan. 1995.

What's Up In Mutual Funds

Funds	4-weeks	13-weeks	26-weeks	39-weeks	52-weeks	Tickers	Telephone
Vanguard Long-Term U.S.	1.06%	2.30%	18.82%	26.41%	22.43%	VUSTX	800-662-7447
Am. Cent. Target Mat. 2025	-0.21%	-0.37%	17.83%	26.91%	27.19%	BTTRX	800-345-7574
Am. Cent. Target Mat. 2020	0.12%	-0.43%	11.28%	17.16%	18.19%	BTTTX	800-345-7574
FBR American Gas Index	-0.61%	9.03%	8.15%	11.08%	19.05%	GASFX	800-343-3355
Price New Horizon-X	1.57%	12.32%	2.72%	2.78%	8.79%	PRNHX	800-638-5660
Vanguard Equity-Income	0.42%	10.93%	2.88%	3.60%	9.76%	VEIPX	800-662-7447
Vanguard L/T Corp. Bond	-1.05%	-0.30%	7.17%	13.12%	15.51%	VWESX	800-662-7447
ING Corporate Leaders	0.32%	12.39%	2.20%	1.69%	10.97%	LEXCX	800-526-0057
Vanguard Muni. Long-Term	1.05%	1.45%	5.03%	9.02%	8.70%	VWLTX	800-662-7447
Fidelity Infl.-Prot. Bond	-0.66%	0.12%	6.92%	9.99%	12.63%	FINPX	800-544-8544
Dreyfus Appreciation	0.72%	8.29%	2.05%	3.29%	8.25%	DGAGX	800-373-9387
Vanguard Muni. Intermediate	1.23%	1.22%	4.37%	7.60%	7.88%	VWITX	800-662-7447
Vanguard Infl. Prot. Sec.	-0.77%	0.20%	6.46%	9.72%	12.97%	VIPSX	800-662-7447
USAA Balanced	0.38%	5.36%	3.20%	4.54%	7.30%	USBLX	800-383-8722
Vanguard Interm.-Term Treas.	0.46%	-0.14%	5.10%	8.71%	7.41%	VFITX	800-662-7447

The top-ranked mutual funds are little changed from last month. The list of top performers continues to be dominated by U.S. government bond funds, especially those investing in long-term treasuries. Some tax-exempt bond funds also continue to be on the list.

A few equity funds snuck their way up the rankings this month, but they also tend to be high-yield, dividend-oriented stock funds. Vanguard Equity Income, Dreyfus Appreciation and ING Corporate Leaders are concentrated in large company stocks with dividend yields above the average. The presence of T. Rowe Price New Horizons is out of the patter because of the fund's superior performance. The fund, which focuses on small growing companies, is handily outperforming both the S&P 500 and Russell 2000 over the last year and has almost a 9% return. It appears to be a case of good stock selection in a difficult market.

Falling off the list or declining in the rankings were funds with inflation hedges, such as Treasury Inflation-Protected Securities (TIPS). There are only two such funds this month. Last month five of them were in the top 15 funds.

What's Down In Mutual Funds

Funds	4-weeks	13-weeks	26-weeks	39-weeks	52-weeks	Tickers	Telephone
Driehaus International Disc	-4.28%	-1.49%	-15.76%	-15.76%	-14.25%	DRIDX	800-560-6111
Royce Premier	-9.26%	-1.36%	-10.85%	-12.23%	-5.55%	RYPRX	800-221-4268
American Century EMs	-3.94%	-6.27%	-16.82%	-14.69%	-16.63%	TWMIX	800-345-2021
Third Avenue International Value	-4.22%	-3.46%	-16.99%	-17.88%	-11.88%	TAVIX	800-443-1021
Longleaf Partners International	-2.57%	-1.34%	-18.25%	-21.28%	-16.62%	LLINX	800-445-9469
PIMCO Commodity Real Return	-6.59%	-12.97%	-13.35%	-9.87%	-0.55%	PCRDX	800-426-0107
Royce Microcap	-9.09%	-2.31%	-13.80%	-16.89%	-13.59%	RYOTX	800-221-4268
Permanent Portfolio Aggr Gr	-9.03%	-2.01%	-13.64%	-17.06%	-11.19%	PAGRX	800-531-5142
Third Avenue Value	-5.21%	-6.54%	-18.45%	-20.19%	-17.55%	TAVFX	800-443-1021
Fairholme Fund	-4.20%	-1.44%	-19.20%	-28.01%	-29.44%	FAIRX	866-202-2263
Matthews Asian Gr. & Inc.	-6.99%	-10.39%	-16.13%	-14.04%	-13.95%	MACSX	800-789-2742
US Global China Region	-4.70%	-10.14%	-17.56%	-22.77%	-25.76%	USCOX	800-873-8637
Dreyfus Small Company Value	-13.96%	-0.39%	-22.22%	-26.61%	-24.37%	DSCVX	800-373-9387
US Global Gold Shares	-21.13%	-25.97%	-15.56%	-22.52%	-26.83%	USERX	800-873-8637
US Global World Gold	-18.17%	-24.73%	-22.59%	-31.01%	-29.70%	UNWPX	800-873-8637

There are some changes in both the specific funds at the bottom of the rankings and also in the asset categories represented. International stocks, especially those focusing on smaller companies, continue to lose value. There are fewer European-focused stock funds at the bottom this month. While those stocks still have poor returns, they've done better over the last month and are superseded by funds focused on emerging markets, especially Asian markets. The Chinese economy clearly is slowing, and that's bringing down all Asian equities. In addition, investors are worried that the European debt crisis will reduce exports from Asian to the Continent.

Gold and commodity-focused funds also are falling in value. There are several factors at work here. Slower economic growth and low inflation forecasts are reducing demand. In addition, investors that have to cover losses and margin loans are other assets probably have been selling their few winners, including gold, to raise cash. Fairholme Fund continues as one of the worst performers because of its concentration in a few financial stocks that have done poorly over the last few years. It's also suffered a drain of personnel.

Invest with the Winners Trading Strategy: Exchange-Traded Funds

Funds	Tickers	4-weeks	13-weeks	26-weeks	39-weeks	52-weeks
iShares Barclay's 20+ Year Treasury	TLT	0.92%	3.17%	21.76%	30.44%	29.21%
SPDR - Consumer Staples	XLP	1.68%	6.70%	3.56%	7.67%	9.85%
SPDR - Utilities	XLU	-1.02%	6.71%	6.16%	7.63%	12.47%
DJ US Utilities	IDU	-0.82%	6.98%	5.51%	6.81%	12.14%
iShares Barclay's 7-10 Yr. Treasury	IEF	0.38%	-1.01%	7.09%	11.36%	11.33%
SPDR - Technology	XLK	-0.46%	10.86%	5.13%	0.93%	3.39%
StreetTracks Gold	GLD	-4.35%	-7.91%	11.50%	20.39%	22.89%
iShares Comex Gold	IAU	-4.36%	-7.95%	11.50%	20.43%	23.01%
DJ US Technology	IYW	-0.74%	11.73%	5.22%	-0.29%	2.50%
SPDR - Cyclical/Transportation	XLY	-0.30%	11.10%	3.94%	0.87%	4.77%
Diamonds	DIA	0.21%	10.89%	2.02%	1.13%	6.55%
DJ US Consumer Non-Cycl	IYK	1.17%	6.77%	2.22%	4.24%	6.64%
Vanguard High Dividend Yield	VYM	0.38%	9.51%	1.87%	1.69%	6.12%
iShares DJ Select Div. Index	DVY	0.04%	8.59%	2.77%	2.41%	6.25%
iShares Small Cap 600 BARRA Growth	IJT	0.80%	11.79%	-0.88%	0.15%	3.34%
NASDAQ 100	QQQ	-1.43%	7.42%	4.77%	1.47%	5.19%
Value Dividend Fund	FVD	-0.13%	8.40%	1.34%	0.95%	6.01%
S&P 500 Growth	IVW	-0.54%	8.32%	1.77%	0.61%	4.11%
iShares Software Index	IGV	-1.69%	14.08%	-2.21%	-1.59%	0.10%
S&P Smallcap 600	IJR	0.69%	12.01%	-0.97%	-2.73%	0.50%
TIPS Bond	TIP	-0.98%	-0.46%	4.99%	6.16%	9.15%
iShars Small Cap 600 BARRA Value	IJS	0.61%	12.41%	-0.87%	-5.35%	-2.16%
S&P 100	OEF	0.19%	9.26%	0.35%	-2.89%	2.05%

Returns are as of December 9, 2011

About the Invest with the Winners Aggressive Strategy

This strategy began the month in four funds: **iShares Barclays 20+ Year Treasury Bond**, **iShares Gold Trust**, **StreetTracks Gold**, and **SPDR-Utilities**. TLT remains in the portfolio. It did not close more than 7% below its recent closing high, has a positive return for the last four weeks and is in the top-15 ranked funds in the latest rankings. (A conservative investor would sell because it has a negative return for the latest week.)

IAU and GLD closed more than 7% below their recent highs on Nov. 17 and remained there, with a lot of volatility, during the month. We sold them from the model portfolio and put the proceeds in cash. XLU had a volatile month but didn't trigger a sell signal between issues. But it has a negative return or the last four weeks, so we sell it.

Our top-ranked fund this month is in the portfolio and will stay there. The second-ranked fund meets all our buy rules. **SPDR-Consumer Staples** is among the top four-ranked funds, isn't more than 7% below its recent closing high, and has a positive return for the last four weeks.

The third-ranked fund is XLU. We're selling because it has a negative return for the last four weeks, and it doesn't meet our buy rules for the same reason. **Dow Jones U.S. Utilities** also has a negative return for the last four weeks, so we won't buy it.

The strategy will be equally divided between two funds: **iShares Barclay's 20+ Year Treasury Bonds** (recent closing high $122.58) and **SPDR-Consumer Staples** (recent closing high $32.05). Sell either if its closing price is more than 7% below its recent closing high. Remember to use only closing prices and to add back any distributions since the recent high to determine if the sell signal is triggered.

For new members, our simple buy and sell rules for the IWW portfolio are in the free report given to new members, *5 Easy Chair Portfolios to Fund Your Retirement Dreams*, which is available for download on the members' web site at www.RetirementWatch.com.

We invest in the four top-ranked ETFs in the rankings, if they meet our buy rules. When a fund doesn't meet our buy rules, we equally split its share among the ETFs in the top four that do. After purchasing a fund, we monitor it to see if any triggered a sell rule. Sell any fund if it closes more than 7% below its recent closing high between our monthly visits. Be sure to add back any distributions when calculating whether the fund is too far below the recent high. In the first month of owning a fund, I go back no further than the beginning of the month before we bought it to determine the closing high. After that first month, I look at prices since the purchase. After selling a fund between issues, put the proceeds in a money market fund until receiving the next issue. Other sell rules are examined when our monthly issue is published. Review the rankings table and sell an ETF when it drops below #15 in my rankings or its latest four-week return is negative.