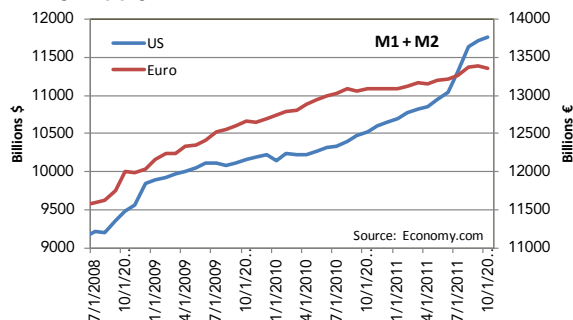


Economic Review

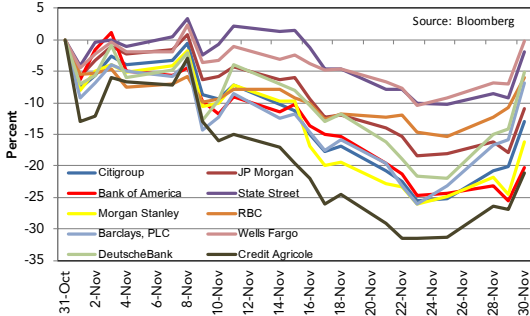
Political upheaval in Greece and Italy highlighted events in November. Greek Prime Minister Papandreou and Italian Prime Minister Berlusconi resigned, both owing to the difficulties of imposing austerity measures on their already struggling economies. The US Congressional Super Committee failed to reach any agreement on \$1.2 trillion in spending cuts. Their failure triggers automatic spending cuts (actually smaller increases) starting with the 2013 budget, although Congress looks poised to void most of those cuts. With the 2% payroll tax cut expiring at the end of the year, Congress may be unable to pass an extension. President Obama delayed judgment on the proposed Keystone oil pipeline until after the 2012 election. The pipeline would connect Canadian oil sands regions of Alberta to Cushing, OK, the Gulf Coast, and southern Illinois. As one of the few industries clamoring for workers and investing large sums of money, the debate over energy development versus environmental concerns has slowed job growth in the US. Canada subsequently announced plans to explore building a pipeline to the Pacific Coast, so that it may export the oil to Asian countries. Oil flow was reversed in a separate pipeline that brought oil from the Gulf Coast to the Cushing, OK, oil hub, easing storage scarcity while pushing US oil prices to \$101/barrel. American Airlines parent, AMR Corp., filed for bankruptcy protection, citing high fuel and labor costs. The filing leaves Southwest as the only major US carrier to not file for bankruptcy since the September 2001 terrorist attacks.

Money Supply



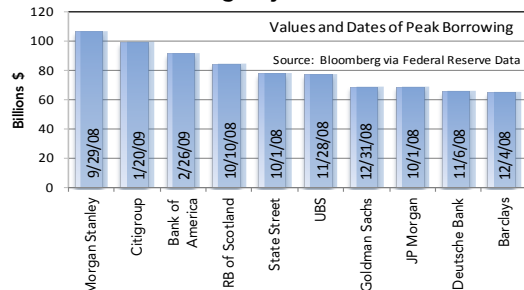
European financial troubles continued to grow as Italian bond yields reached record levels. An auction of German bonds was not fully subscribed, further exacerbating tension in the Euro area. Italy, like Greece, Spain, and Portugal, faces a problem that is not of recent creation. These countries built up too much dependence on government spending within the realm of capitalism-based economies, leaving them in the current conundrum of needing additional tax revenues at the same time that they must cut their economies' large government sectors. As outside lenders force a take-it-or-leave-it stance on imposing austerity measures, these countries are unlikely to solve their financial shortfalls in the realm of a multinational currency. Because the expanded government sectors of these countries led to less dependence on manufacturing and private industry, the base from which to grow the private economies is not strong enough to turn around the debt trap in which they find themselves. Since countries like Germany and France have higher productivity and no currency valuation differences as trade barriers, their goods are essentially cheaper than comparative goods provided by Italy and the others. Short of a Euro breakup, these countries will be mired in economic doldrums for many years to come as they deal with reshaping their economies into private-sector driven markets. The ex-Soviet and Eastern Bloc countries took years to transform, and the most successful ones tended to have less government control of traditionally private-sector industries.

Bank Stocks Fall in November



The European Central Bank cut its Refinance Rate from 1.5% to 1.25%, reversing increases in April and July 2011. The Euro money supply has increased slowly, in contrast to the Federal Reserve's reaction to the mortgage crisis. At a time when the Euro zone needs economic growth, increasing money supply is a necessary component. The ECB, however, remains pointedly focused on keeping inflation near 2%, and Germany and France are reluctant to punish their own economies for the misdeeds of other Euro countries. At month's end, several central banks announced plans to provide additional liquidity to European banks in the midst of a tightening lending environment, akin to the Lehman collapse coordination.

Federal Reserve Emergency Loans



Bloomberg's persistence allowed the release of documentation regarding Federal Reserve funding operations from the past several years. The documents showed a cumulative \$7.8 trillion in lending to banks as they tried to navigate the financial crisis. Many banks publicly stated their stable fiscal health, only to borrow tens of billions several months later. The borrowing also allowed the banks to make \$13 billion in profit from the low-cost loans.

Market Returns

	As of November 30, 2011		
	November	3 Months	YTD
S&P 500	-0.2%	2.9%	1.1%
Russell 1000 Value	-0.5%	2.5%	-1.6%
Russell 1000 Growth	0.0%	2.8%	3.0%
Russell 2000	-0.4%	1.9%	-4.8%
MSCI EAFE	-4.9%	-5.6%	-11.3%
Emerging Markets	-6.7%	-9.7%	-17.2%
Barclays Agg	-0.1%	0.7%	6.7%
3-Month T-Bills	0.0%	0.0%	0.1%

Massachusetts Rep. Barney Frank announced his retirement in 2012. His recent legacy includes fervent support for Fannie Mae and Freddie Mac's expanded role in the mortgage market, and his co-authorship of the Dodd-Frank financial reform bill, details of which are still being hashed out.