

Economic Investment & Market Comment

1st Quarter, 2012

April, 2012

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AULL & MONROE, INC.

The Stock Market

The first three months of 2012 have proven to be nicely rewarding for investors in American stocks. Although daily trading volume remains on the low side and any given day can produce unsettling price volatility for sometimes very arcane reasons, in general the stock market has behaved in a consistently more rational manner so far this year than last. On a fundamental and an historical basis stock prices for the most part are still quite reasonable at current levels. Few if any economists and Wall Street prognosticators expect anything more than very tepid growth in either the American economy or overall corporate profits this year, so a continuing advance in stock prices will primarily depend

upon positive news coming out of Washington, D.C. as to reducing the federal deficit in real terms and progress in simplifying the tax code while still favoring savers, investors and wealth creators and without playing the class warfare card.

While the biggest event expected to influence stock prices this year will, of course, be the fall elections, especially the presidential one, a general toning down of the vitriolic political rhetoric and a feeling among the investing public that the country is moving in the right direction even before the election should bolster the confidence of the many investors still primarily out of the market. Sooner or later potential investors watching their cash and low

interest deposits being eroded by slowly creeping higher inflation will realize they have few if any alternatives to the stock market. A more stable political outlook for the United States will also attract foreign investors who have, to a significant degree, reduced their holdings in American equities.

We don't necessarily expect much of this new money to enter the stock market in the next three to six months as the world is still facing uneasy times and investors' fears, both rational and irrational, will likely bring a little more volatility into the market in the nearby term. We do believe that, despite a very strong first quarter, stocks will be higher at the end of 2012 than they are now.

The Economy

The economic recovery that was looking so promising last fall has stalled and while the U.S. probably won't slip back in recession it's hard to see how a significant improvement in the unemployment rate or con-

sumer discretionary income can occur any time soon. The unemployment rate has fallen below nine percent in the recent months but that is solely due to workers dropping out of the labor pool and no longer looking for employment. The actual

number of Americans with a job has scarcely increased since the depths of the recession.

With no consensus on a federal budget in Washington, the Bush era tax cuts expiring at the end of the

The Economy (Cont'd)

year and unimaginably high federal deficits stretching far into the future it's no wonder employers are hesitant to add workers and investors are reluctant to take risks. The key to a recovering economy is a political consensus in Washington that focuses on austerity

and the contraction of the federal government. If we don't want to eventually end up like Greece the process has to start now. Politicians who say we can't fix the overspending /debt problem until the economy recovers have it all backwards. The economy won't recover

until we seriously start to cure the federal spending spree.

Politics

The next big political hurdle our economy and markets face is the decision now being undertaken by the U.S. Supreme Court, and to be announced in June, regarding the constitutionality of the Patient Protection and Affordable Care Act, also known as "Obamacare."

If the court decides that the federal government

can compel private citizens to enter into commercial agreements against their will (i.e. the mandatory purchase of private health insurance) it's possible the free market pricing mechanism that determines supply and demand in the U.S. economy will be so undermined our quality of life will be negatively impaired in ways we can not yet imagine. A vigorous

private economic sector certainly requires some reasonable government regulations, but the amount of current government intrusiveness into our private economy has gone way too far.

Individual Retirement Accounts

As another tax season deadline approaches, we want to reiterate the benefit of contributing to an Individual Retirement Account, or IRA. Any individual under age 70 1/2 with taxable compensation, and their spouse if filing a joint income tax return, is eligible to contribute to a traditional IRA. While your contribution may not be deductible if you are eligible to

participate in a company retirement plan, the money in this account still grows tax deferred.

For those individuals filing joint tax returns, including those over 70 1/2, with taxable compensation under \$179,000 a Roth IRA may be an option. Roth IRAs do not have the minimum distribution rules that apply to traditional IRAs at age 70 1/2 and qualified dis-

tributions are tax free.

Contributions to IRA accounts are limited to \$5,000 per individual for 2011 and 2012 and taxpayers age 50 and over are eligible for an additional \$1,000 catch-up contribution, or \$6,000 per year.

If you have not made an IRA contribution for 2011, call us today. The deadline to contribute is April 17, 2012.

The comments and opinions contained herein are those of Aull & Monroe, Inc., a Registered Investment Adviser. The sole intent of this newsletter is to communicate to our clients our investment philosophy and current thought. Nothing in this report should be considered as a recommendation for any particular security or trade nor should any item be taken out of context.

Please contact our office if you would like to receive a current copy of Aull & Monroe's brochure and ADV or if your financial situation has changed in the last three months.

Market Returns from 12/31/2011 - 3/31/2012

S&P 500	12.59%
Balanced Fund	7.79%
Bond	-0.50%
Cash	0.05%

The S&P 500 index provided here is the Total Return (price plus gross cash dividend return). The Balanced Index is composed of 60% of the Wilshire 5000 index and 40% of the Barclays Capital U.S. Aggregate Bond index. The Bond Index is the Barclays Capital Intermediate Term bond Index and the Cash return is the average brokerage money fund.

Have you made your 2011 IRA contribution?

The deadline is April 17, 2012.

Call us for eligibility.



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For those clients that have been referred to us by a third party solicitor, we may from time to time provide the solicitor with nonpublic personal information regarding your accounts (i.e. referred clients' account balances). If you were referred to us by a solicitor, you have the right to prohibit us from sharing non-public personal information with these solicitors; however because the solicitor's referral fee is based on your account balance, certain information may be necessary to disclose. If you would prefer that we not share this information with the solicitor who introduced you to us, please contact our Chief Compliance Officer at (251) 342-3339.

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Aull & Monroe also has the duty to protect any "consumer report information" through proper disposal. Any physical documents containing client information is shredded in order to protect unauthorized access or use. In addition, electronic files containing client personal information are password-protected to protect against unauthorized access, and disposal of electronic media is handled by erasure of files so that information cannot practicably be read or reconstructed.

Contact Us:

We reserve the right to change this Privacy Statement and Policy as necessary. If you have any questions regarding this Policy, please contact our Chief Compliance Officer at (251) 342-3339.



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