

Economic Investment & Market Comment

4th Quarter, 2011

January, 2012

ANNOUNCING...

Aull & Monroe is pleased to announce that Jamie Thuss is now a partner.

The Stock Market

Stock prices continued their volatile behavior throughout 2011's fourth quarter, but unlike the third quarter the trend was more to the upside, which enabled the market, as measured by the Standard and Poor's 500 stock index, to finish the year almost exactly flat (not considering the positive dividend income). The market as measured by the Dow Jones Industrial Average finished somewhat better, up about 5½% plus dividends.

While our clients' portfolios are all separately managed and, naturally, each client has somewhat different risk levels, entry points, long term goals and needs, etc. the portion of our clients' funds invested in stocks are generally invested at a risk level equal to about 80% to 85% of the market risk as a whole. This strategy usually involves investing in stocks that, overall, pay a higher dividend yield than the market as a whole. For 2011 our clients' returns,

while specific to each account, handily outperformed both major stock market indexes.

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For the coming year we expect the stock market on a day to day basis to act much the same as 2011. Fundamentally stocks are very attractively priced, but most investors are still shunning the market and a lot of investment funds are still in cash despite short term interest rates at a virtual zero level. The reality of an election year combined with an

economy whose recovery is still much in doubt will likely give pause to new money entering the market. All in all we expect a positive year for American stock markets, while realizing it's about the only viable investment option at this time. The presidential election at the end of the year, of course, will have an impact on how the markets end up for 2012.

The Economy

The American economy has proven over the past twelve or fifteen months to be a lot more resilient than hardly anybody expected. Despite chaos in the European economies, a domestic housing market in an ongoing meltdown, a slowdown in China and an unbelievable growing federal deficit, the U.S. economy is growing, albeit weakly, consumers are reducing debt levels and the savings rate of Americans has actually

The Economy (Cont'd)

turned positive.

While there are still a few economists who believe the economy is only hanging on due to government deficit spending, most economists now think the hundreds of billions of dollars in stimulus spending were wasted

and if the recovery is going to continue the federal budget needs to be balanced as soon as possible. The ticking time bombs, of course, are interest rates and inflation. Deficit spending, expanding the money supply and artificially maintaining record low interest rates is

a formula that guarantees much higher inflation, and sooner or later higher interest rates, both of which we expect in about eighteen months time unless the Federal Reserve and the Congress change course.

Politics

The political war raging for the determination of America's economic future will culminate, at least for the foreseeable future, in this November's elections. The main focus will be the presidential election but almost as important will be the results of the U.S. Senate races. If the Republicans can take control of the Senate, especially if they can achieve a filibuster proof sixty seats, and assuming the House of Representatives remains in Republican hands, there will be real political pressure to meaningfully reduce the federal budget deficit even if President Obama

wins a second term.

The stakes are huge, much more than just the issue of an out of control budget deficit. What this fall's federal elections will decide is if the United States continues on the path towards a Western Europe style socialist economy, and every day in the news we see what a disaster those economies have become, or if we change course and return to a national policy of smaller government and an economy run by the private sector that rewards initiative and hard work instead of merely existing to feed the government bureaucracy.

A smaller government, a balanced budget and lower taxes will not only benefit the minority of Americans who pay the majority of the income taxes but, ironically, also provide more help to the truly needy who depend on a government provided safety net. The poorest segment of society certainly suffered the most in the former Soviet Union, and the future of Greece's underclass seems very dire indeed. It's time for America's politicians to do the right thing and that can only happen if we elect the right politicians.

Market Returns from 12/31/2010 - 12/31/2011

S&P 500	2.11%
Bond Index (Barclay's Capital Intermediate Bond Index)	5.52%
Cash (Average Brokerage Money Fund)	0.05%
Balanced Fund Index (60% Wilshire 5000 Index and 40% Barclay's U.S. Aggregate Bond Index)	3.49%

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