



December 2011 Capital Markets Review

INDEX	PERIOD ENDING DECEMBER 31, 2011					
	QTR	YTD	1 YR RETURN	3 YR RETURN	5 YR RETURN	10 YR RETURN
BROAD MARKET EQUITY						
S&P 500 Index	11.82%	2.11%	2.11%	14.11%	(0.25%)	2.92%
Russell 1000 Index	11.84%	1.50%	1.50%	14.81%	(0.02%)	3.35%
Russell 2000 Index	15.47%	(4.18%)	(4.18%)	15.63%	0.15%	5.62%
Russell 2000 Growth Index	14.99%	(2.91%)	(2.91%)	19.00%	2.09%	4.48%
Russell 2000 Value Index	15.97%	(5.50%)	(5.50%)	12.36%	(1.87%)	6.40%
NON-US DEVELOPED MARKETS EQUITY						
MSCI World Ex U.S.	3.51%	(12.21%)	(12.21%)	8.53%	(4.09%)	5.14%
EMERGING MARKETS EQUITY						
MSCI Emerging Markets Index	4.42%	(18.42%)	(18.42%)	20.07%	2.40%	13.86%
FIXED INCOME						
90 Day U.S. Treasury Bills	0.00%	0.06%	0.06%	0.12%	1.31%	1.91%
REAL ASSETS / NATURAL RESOURCES						
Dow Jones U.S. Select REIT	15.36%	9.37%	9.37%	21.63%	(2.04%)	10.12%
S&P North American Natural Resources Index	14.25%	(7.35%)	(7.35%)	16.44%	4.04%	10.99%

Commentary

- ❖ The U.S. equity market staged a strong rebound in the fourth quarter of 2011 resulting in a positive return for the full year. Most of the gain for the quarter occurred in October as investors reacted to a number of factors including attractive valuations following the third-quarter sell off, strong corporate earnings, improved domestic economic data, and the prospect that a resolution to the European debt crisis may soon take shape. Performance for the last two months of the year was muted, however, as the lack of a definitive solution to the European debt crisis offset positive consumer sentiment surrounding the holiday season.
- ❖ Small-cap stocks outperformed large- and mid-cap issues in the quarter as investors returned to risk-taking while also recognizing a favorable valuation disparity that resulted from investor preferences for large cap issues during the previous 6-month period. Value stocks reversed the trend of the previous two quarters and outperformed their growth counterparts.
- ❖ The International equity markets earned a positive return in the quarter but trailed the U.S. market by a wide margin. Local currency returns across Developed Europe were broadly positive with the notable exception of Greece, which was down 25 percent due to their debt crisis and deteriorating economic health. A weaker Euro relative to the U.S. Dollar also negatively impacted returns for Dollar-based investors in the quarter. Negative local currency returns for the Developed Asian region were primarily impacted by performance in Japan, where a stronger Yen continued to cause concerns over export demand and the potential impact on the nation's economy. The Emerging Markets outperformed their Developed counterparts in the quarter as most countries within Latin American, Europe and Asia generated positive results.

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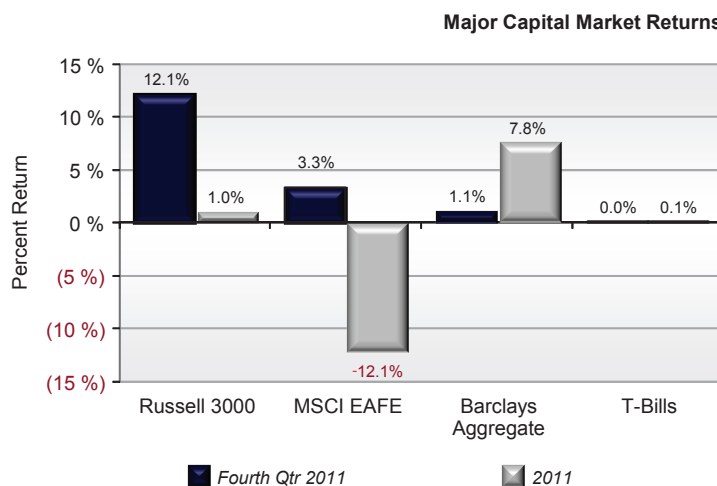
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- ❖ The combined Emerging Markets returned 4.4 percent in the quarter with the Latin American region posting the strongest results. Returns in Peru led the region as favorable GDP growth and lower-than-expected inflation encouraged investors. Turkey was the lowest performing Emerging Market in the quarter on investor concerns about the high current account deficit and expectations that the country will likely follow the rest of the Euro Zone into recession.
- ❖ The U.S. Treasury yield curve flattened modestly in the quarter as rates at the short end of the curve remained unchanged while longer term yields declined. While most investor flows in the quarter went up the risk spectrum in the fixed income market, investors looking to remain in the Treasury market focused on the long end of the curve to garner additional yield.
- ❖ Agency mortgages kept pace with Treasuries during the quarter, returning just under 1.0 percent. Despite any further action from the Federal Reserve to increase mortgage purchases, rates fell below 4.0 percent in the quarter as strict lending standards and high unemployment kept new lending and refinancing activity at low levels.
- ❖ The search for yield and an improved investor risk appetite translated into stronger returns for lower quality debt in the quarter. Investment grade bonds rated Baa outperformed their higher-quality counterparts, while the lowest quality segment of the high-yield universe was the top performer of all fixed-income segments in the quarter, returning more than 10.0 percent. Financial sector issues trailed the other corporate segments in the quarter as potential exposure to European debt was further priced into valuations.



Note: The following indices represent the returns of the asset classes within the above chart: U.S. Stocks – Russell 3000, Non-U.S. Stocks – MSCI EAFE, Fixed Income – Barclays Aggregate, and U.S. Treasury Bills

