VAN LIEW TRUST COMPANY

as we see it

Winter 2012

THOUGHTS FROM OUR CHAIRMAN

In this issue of *As We See It*, Wade Walbrun provides our views on investor distraction. While the road will remain bumpy, we believe the US markets in 2012 will be less volatile and generally trend higher. To better understand our position on this, read on!

Alfred B. Van Liew

That Far Away Look

Wade M. Walbrun

Commonly described as that look in one's eyes when one is not focused on the present moment, "that far away look" may also be considered, quite literally, as looking beyond your immediate surroundings to somewhere distant. Both interpretations are correct, and either may characterize the current thinking of many investors. Those with the "far away look" seem to place excessive significance on European economies and markets, while looking past, or beyond, the advances in the economy and markets right here in the US. Could it be too many investors are ignoring a real opportunity right here in our own backyard? We think so.

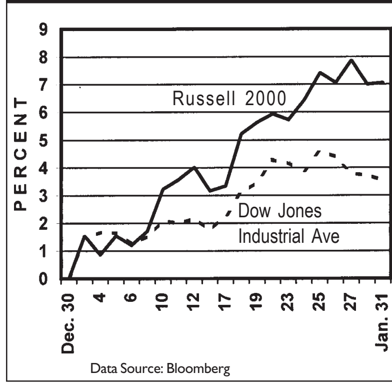
Regardless of the economic data coming out of the US in 2011, the oft heard cry of "markets are down on European debt concerns" from market pundits appeared to weigh heavily on investors. All eyes seem focused overseas. Europe's sovereign debt crisis, with its governmental leadership changes, high stakes drama, riots, and unproductive back and forth banter, not only captured the attentions of financial press and investors, but looked to be the single dominant factor behind the stock market's performance. The crisis abroad stoked real fear of a potential economic tailspin. With the Eurozone consuming about 16% of US exports and around 18% of China's exported goods, investor concern was well founded. A profound slowdown would have deleterious effects on the rest of the world's established and emerging economies. As European nations struggled throughout 2011, investors watched intently, waiting for an economic implosion that never really came. In 2012, continued expectations of a coming economic calamity may also be overblown. Indeed, the International Monetary Fund (IMF) estimates of GDP growth call for only a modest -0.5% recession in Europe in 2012. We believe many investors remain focused on the happenings overseas, placing too much significance on the lingering European question.

Granted, an unexpectedly deeper and more prolonged malaise in Europe would be felt with greater affect in both emerging and established economies, yet barring such an occurrence, we feel there are many reasons investors should shed their "far away look" and concentrate their attentions on a growing US economy. US Gross Domestic Product (GDP), the broadest measure of economic growth, started 2011 with a modest 0.4% increase, as reported by the US Dept. of Commerce, but has grown steadily throughout 2011, with year over year growth of 1.3%, 1.8%, and 2.8% in 2Q, 3Q, and 4Q, respectively. The latest Index of US Leading Economic Indicators (LEI), a directional indicator of the future economic growth, rose in December for a third straight month, indicating the world's largest economy will keep growing in early 2012. Regarding the employment picture, the US Dept. of Labor reports a still depressed 8.5% unemployment rate, yet it is improved from the seasonally adjusted number of 9.4% reported in December 2010. Over the last five months, the underlying numbers have been directionally positive, with reports of over a million people finding work during that time. The latest quarterly survey of bank senior loan officers released by the Federal Reserve shows demand from small businesses rose by the most in any quarter since 2005. Retail sales, as reported by the US Dept. of Commerce, increased 7.7% for the full year 2011 over 2010, and Consumer Sentiment has risen five of the last six months, coming from an August low of 55 to the most recent level of 72, as reported by the Thomson Reuters/U. of Michigan Index.

Even as US economic reports widely improved throughout 2011, "gun shy" investors took their cues from Europe and sought investment safety in bonds and money market funds, despite a US stock market that faired well in comparison to its foreign counterparts. As such, US stock mutual funds saw an outflow of funds of about $98 billion in 2011, as reported by Morningstar, marking the sixth consecutive year of US stock mutual fund outflows. There is a glimmer of hope that investors are beginning to focus their vision on the here and now. The most recent US stock mutual fund flow data for January show their first cash inflows since August 2011. Still, some critics opine such inflows are simply a result of the calendar year-end effect of 401k contributions. The horse is still out of the barn.

Heartened by economic headway here in the US, we favor domestic equities and feel there is real opportunity in what we consider, the "overlooked" US market. Valuations for US stocks look attractive. After a robust 16% rise in US corporate earnings in 2011, as measured by the S&P 500, street estimates call for healthy 9% earnings growth in 2012, equating to an S&P 500 forward price to earnings ratio of 12, around lows we haven't seen in over 20 years. Company balance sheets, propped up by healthy operating margins and robust free cash flow generation continue to impress, too. Sure, there may continue to be headline risk from Europe, but with the US's biggest export partners being those from the relatively more healthy northern European economies, the actual negative effect on corporate revenues may be somewhat muted. We see little reason to continue staring off in the distance when there is plenty in the US worth looking at. Take a look.

T R E N D L I N E S



***Some** characterize the January move in small cap stocks (Russell 2000) as simply playing catch-up to the large caps (Dow Jones Industrials) after a dismall 2011. We think rather, that investors are expanding their appetite for risk, a trend that may have some staying power beyond January.*

We would be delighted to meet with you to share comments about this article, or to review your portfolio in detail.

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