SIMMONS Street NEWSLETTER

December 31, 2011

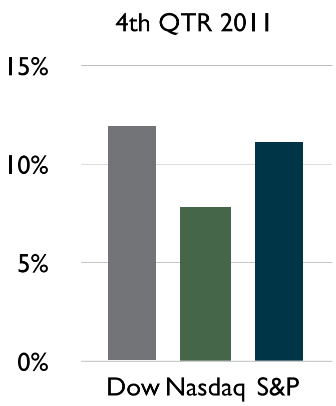
TALKING POINTS

2011 NOT GREAT, BUT NOT NEARLY AS BAD AS PERCEIVED

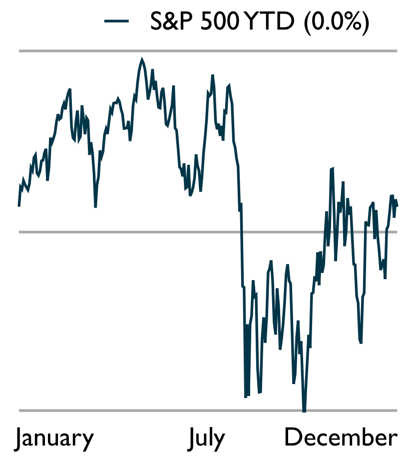
COMPANIES STILL PROSPERING DESPITE ECONOMIC WORRIES

EQUITY MARKETS TRADING AT TERRIFIC VALUATIONS

WHAT IS YOUR INVESTMENT STYLE?



Your **Perception is** ***Your*** **Reality**



2011 will certainly not be remembered as a banner year. What began as a decent start, concluded with uncanny irony as the market closed the year out essentially where it opened. No area was untouched by the tremendous level of adversity, pessimism and volatility. But was 2011 really that bad of a year? The answer depends on your perception.

If, by chance, you have a gloomy outlook on our country's prosperity and your view is influenced by any of our media outlets, then you probably thought it was a terrible year. On the other hand, if you understand that the events happening are all part of a long-term growth and a cleansing process — and if you understand that the media does not always tell the whole, unbiased truth — then 2011 may not have been all that bad for you.

You can usually tell that people who have a good outlook on life generally have good things happen to them and, conversely, those who have a dismal outlook typically have bad things continually happen to them. Truth be told, people who tend to worry incessantly and keep up to speed with negative financial and political journalism also tend to worry about their portfolios. They allow, even though they may not admit it, these negative factors to carry over to their investments and, more specifically, their decision making. It's this kind of thinking that can cause so many mistakes.

I would suggest that people who do not pay attention to the negative noise, who do not worry, dwell and mope are more optimistic. These are also the people who stick to a predetermined plan — one that involves a strategic and properly diversified investment portfolio approach. I would predict that these investors also tend to have much better overall performance in the long run.

Digging deeper, the trick for the individual is doing whatever it takes to keep a positive mindset when it comes to investing. In retrospect, I've never known a pessimist who amassed a substantial amount of wealth investing.

Understandably, the biggest fears people have right now revolve around the uncertainties associated with our global economy, the high level of volatility, and politics.

In my opinion, we really need to be afraid that a negative outlook can cause us to make bad decisions. Decisions made out of fear can have devastating long-term effects on our hard-earned dollars. Our biggest actual threat is not the volatility of the stock market but our inability to cope with the fear associated with that volatility. Threats such as ultimate inflation eroding our long-term purchasing power, inescapable and inevitable taxes and our eventual longevity and existence on this Earth are the issues we really need to be worrying about most.

The proverbial gospel I'm trying to preach is that you need to concern yourself least with what others fear most, because our dangers will come from where they are least expected.

The next logical question is "how do we control our recognized or even unrecognized fears and our overall perception?" In order to exhibit control, we need to maintain unconditional confidence in our inevitable growth toward prosperity.

Mentally, we have to learn to let go of all the bad thoughts, the noise, the clutter that is so readily available to us. We have to completely abandon the feeling that there is something fundamentally wrong with the long-term proposition. Forget the short-term. Likewise, the broader perspective you have, the better you can ride out the bumps along the way.

CLIENT APPRECIATION

WE WANTED TO RESERVE THIS SECTION TO THANK OUR CLIENTS. WE ARE ESPECIALLY PROUD AND FEEL EXTREMELY PRIVILEGED TO WORK WITH SOME AMAZING PEOPLE WHO ARE UNFAZED BY THE VOLATILITY. 2011 WAS NOT A YEAR FOR THE FAINT OF HEART. IT WAS A CHALLENGE FOR ANY INVESTOR, AND DESPITE THIS CHALLENGE, OUR CLIENTS WERE RESILIENT. THEIR UNWAVERING ABILITY TO HAVE A PLAN, STICK TO THAT PLAN AND LOOK FORWARD TO THEIR FUTURE PROSPERITY MAKES OUR JOB THE MOST REWARDING ON THE PLANET. THANK YOU FOR ALLOWING US TO LOVE OUR JOB EACH AND EVERY DAY!

In his book "Shambhala: Sacred Path of the Warrior," Trungpa states that "This (Confidence) is an unconditional state in which you simply possess an unwavering state of mind that needs no reference point. There is no room for doubt; even the question of doubt does not occur. This kind of confidence contains gentleness, because the notion of fear does not arise; sturdiness, because in the state of confidence there is ever-present resourcefulness; and joy, because trusting in the heart brings a greater sense of humor. This confidence can manifest as majesty, elegance, and richness in a person's life."

Once doubt, fear and pessimism enter the mindset, our desired success becomes much harder to attain. We must maintain unconditional confidence in the long-term state of our prosperity, despite the challenges of the present. If we can achieve this, then our perception will be positive, fear and mistakes will be minimized, and our chances of prosperity increased.

I understand this digs deep in the mental realm and may be challenged by some people, but I am quite confident that conquering the mindset and trusting it will increase returns substantially over the long run. Abraham Lincoln once said, "It is better to trust all the time and sometimes be disappointed than to trust none of the time and be miserable."

If we can single out the negative thoughts in our heads and maintain a positive perception, then the things we want will, in many instances show up. If we hold on to fear and worry, then a pessimistic vision will persist.

To circle back around, those who perceive things woefully probably had a terrible 2011. On the contrary, those who maintained a high level of confidence, trust and optimism most likely viewed 2011 as just another year.

Your perception is indeed your reality.

Macro vs. Micro vs. Media

I wanted to touch briefly on an economic issue that is a core element we need to understand at the moment. It's no secret that our domestic economy is weak right now. The macroeconomic picture, which looks at our country's fundamentals as a whole, has been struggling to consistently post strong growth numbers. It is this area that has been the most disappointing, whether it be from a jobs, confidence, GDP, debt, etc. standpoint. It should be noted, however, that these numbers are actually improving and growing at a subdued pace, but positive progress is the overall goal.

On the other hand, the microeconomic side, as we have discussed many times throughout the past year, has been doing extraordinarily well. Companies are boosting spending, increasing capital investment, reducing debt and purchasing back their underlying stock. These are all signs that prove the truism that the microeconomic side of the coin is extremely robust. We must understand and realize this as we are constantly pressured to think all is bad.

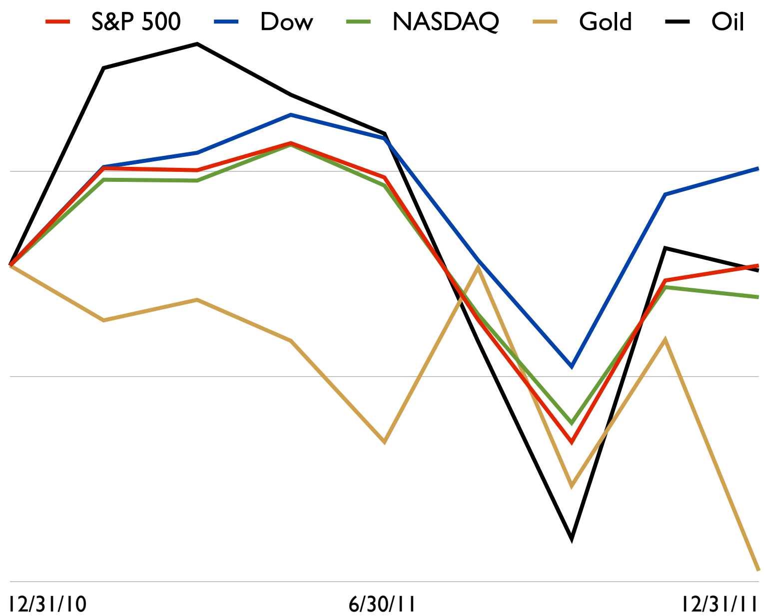
The biggest insights my former economics professors instilled in me were to understand how the microeconomic and the macroeconomic sides work and to differentiate them from one another. While the micro and macro are indeed correlated and move in somewhat tandem, it is also important to understand that they shrink and expand at different rates and at different times. Knowing this vital information allows the individual to have a more complete level of knowledge to evaluate the economy as a whole and derive their own conclusions, rather than rely on others.

Market Insight

If your pessimism increased in 2011, you weren't alone. It was a very challenging year, even for the most seasoned professionals. The past year wasn't a complete disaster — the market has seen far worse stretches — but it was a frustrating, trend-less struggle.

Despite the volatility, the market's fundamentals are actually pretty decent. Earnings were stronger than expected, and the bulk of companies appear to be on the right track. During the height of earnings releases in October, the S&P 500 experienced one of its best monthly performances in history, albeit after a substantial drop.

We are 100% confident that the stock market will detect the resolution of any crisis long before the actual details of the recovery are visible to the masses. As a leading indicator, the market tells us not when things are good, but when things



HUMOR OF THE DAY

"The stock market fell sharply today, then bounced back, spiraled upward, jumped forward, leaped to new heights, tumbled rapidly, and took first place in a gymnastics competition."

start to get less bad. It turns when all looks black, but just a shade less black than the day before. So, instead of worrying about the details of our global issues and their imminent resolutions, we are patiently waiting and watching the market.

One interesting observation is the vast amount of money pouring into instruments we consider to be selling at a premium, or peak prices, and carrying substantial risk and little upside potential.

U.S. Treasuries continue to attract investors, and we are not really sure why. Treasury yields are at record lows, and the U.S. has debt problems of its own. It doesn't seem very safe to buy debt instruments of a country with budget deficit problems and a government that is unable to cooperate enough to fix it.

Our view is that an investment in treasuries seems like a poor decision. Eventually, the economic and political turmoil will settle down and interest rates will start to climb higher, causing the price of treasuries to fall. Investors who buy treasuries now get low yielding investments with little upside potential for the long haul.

Equally important, if not more, is that, relatively speaking, equities are more attractive than fixed-income investments on a valuation basis. The current consensus earnings estimates compared to the 10-year Treasury yield shows equities being tremendously undervalued.

More so, as equities seem to have less uncompensated risk than they have in nearly a generation, bonds are rampant with nothing but probable risk. At 2% on the 10-year, interest rates have been reduced about as far down as they can, barring a flood of panic. But if, and when, it happens, we will see the peak of the multi-decade bull market in bonds that should, in turn, open the floodgates for a substantial equity rally. And to compound, we may begin to see the record amount of dollars on the sidelines sitting in cash or cash equivalents, earning nearly nothing, begin to move into equities as well, thus increasing demand that would push stocks to exceptional levels.

Additionally, we see on the surface a market that has apparently moved in a sideways trading range, while the world has struggled to recognize the potential bursting of the greatest bond bubble of all time. Our great enterprises have set the stage for an equity value rally for the ages. Fundamentals, such as earnings, cash flows and corporate cash balances, are at all-time highs, and dividends are recovering to boot. Looking at the big picture, the foundation has been poured for a potentially strong market ahead.

To sum up:

1) Equities are intrinsically more undervalued than they've been in decades, and while regarded as risky, seem to be one of the least risky investments at this time.

2) Equities are as undervalued relative to bonds and other debt producing instruments as we've seen them in ages.

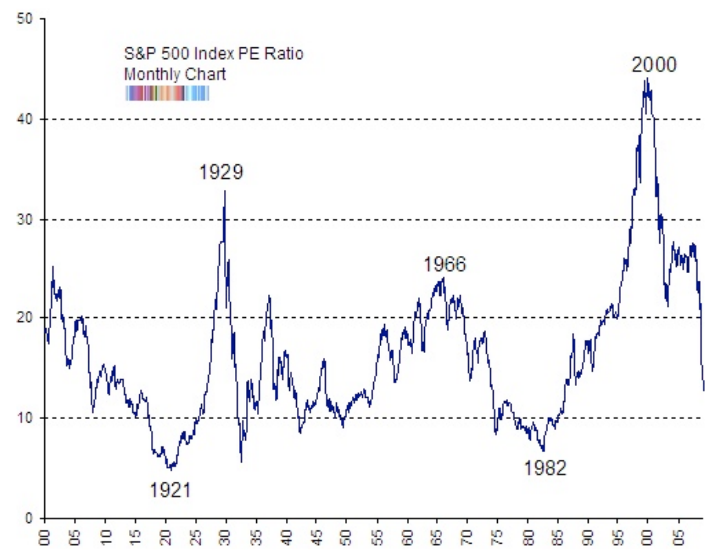
3) Bonds are more overvalued than they have been since the 1950's and seem to have literally nowhere to go but down.

4) The potential for huge, long-term gains in equities is much greater than people seem to realize.

Warren Buffett announced last quarter that Berkshire Hathaway would begin acquiring its own shares up to 110% of book value. If you don't understand what that means, understand this: Warren Buffett feels so strongly optimistic about the market that he is willing to not only purchase the stock, but also pay a premium for it, as he knows it is selling way below its upside potential. We believe, as does Buffett, this is a period of maximum opportunity.

We know that when the equities begin their uptrend, amid their increasing value, they will increase farther and faster than most people expect. Conversely, when interest rates stall out, under increasing pressure, we think bonds will decrease farther and faster than most people think is possible.

We are not attempting to time the market and we know that they don't “ring a bell at the bottom.” The idea that anyone knows when this ecliptic shift will happen is nonsense, and our experience tells us that it is futile to even try to predict. Alternatively, our view is that sticking to a predetermined long-term strategic investment plan that factor in these difficult phases is the best approach to long-term prosperity.



Political events over the next 12-24 months are not predictable, nor will they really have any long-term barring effect on our financial outcomes. We've all heard the saying "Can't see the forest for the trees," and it implies the inability to see the big picture due to an obsessive nearsighted focus on the details. We think investors, in their attempt to take advantage of all the information-gathering capabilities to stay current, forgo the opportunity to step back and look at the big picture. The result is excessive focus on the daily details and a market that gyrates day to day by untold reasons.

The very, very long trend, of course, is up, as it has been since people began buying and selling stocks on Wall Street some 200 years ago. As long as our country's economy grows, and public markets exist for the shares of growing companies, that trend will continue.

Suffer now or suffer later, but only suffer with discipline.

Helen Keller once said, "Life is either a daring adventure or nothing. Security does not exist in nature, nor do the children of men as a whole experience it. Avoiding danger is no safer in the long run than outright exposure."

Security, especially in today's financial world, is a myth. There are many different types of investors, from ultra-conservative to downright risky and aggressive. No matter the style, there is no free ride when it comes to our money. We need to understand the repercussions of the investment styles we choose. Those who want less risk and less pain now will probably suffer and have pain in the future due to a tight and stretched budget. Those who are willing to take a bit more risk and a bit more pain now will probably realize a much greater reward in the future.

The question is: When do you want your pain? If you want to take the easy road now, the road later will most probably be harder. However, take the harder road now and it is more probable you will have it easier during retirement.

Those who choose an ultra-conservative approach to investing avoid the volatility of the markets and ultimately avoid the potential and probable rewards that come along with it. The future will require a certain level of purchasing power that the individual may or may not have due to an easier road in the past. On the other hand, the individual who accepts a more growth-oriented approach and endures more volatility will have to watch his values fluctuate to uncomfortable and sometimes painful levels. But, if this individual reaps the benefits of long-term growth, the pain will be replaced with plentiful resources to depend on.

Investing is not easy and, in fact, it's downright hard. Further, there is no such thing as low risk, high return. If you can understand and accept this proposition, the end result tends to justify the means.

Success happens over a long period of time and requires discipline. In life, there are two types of pain: the pain of discipline and the pain of regret. Make your choice and run hard now with discipline.

In Summary

As we close and optimistically look forward to a prosperous new year, we can't do so without revisiting the past. During a period most people consider one of the worst investing measures known, the overall return of the S&P 500 was nearly 10%, which relates to an average annual return of less than 1% per year. While frustrating and certainly nothing to brag about, it doesn't seem too terribly bad considering the heartache, pain and worry we've all succumbed to.

The bigger picture, however, is the gross annualized underperformance. The average annual return of the stock market throughout time is nearly 10%, and the past 11 years have only managed roughly 1% per year.

Three main points should be taken away from this observation.

1) The risk, at 1% annually during one of the most difficult periods, is not all that much.

2) The stock market is extremely undervalued at the moment relative to long-term average returns.

3) If reversion to the mean is correct, and we believe it is, the markets in their attempt to revert back to the mean may just provide us with an average annual return superior than 10% going forward.

We know that many people view the current environment as a bear market. To us, it doesn't make a difference and we're not going to label it. The long-term trend is up, and that is all that matters. However, if we were to put a label on it, we'd call it a "bear trap" rather than a bear market. Any trap is designed to trick and lure the prey before capturing it when least expected. Similarly, a bear trap is a situation that gives a false signal that the rising trend of stocks has reversed, and thus causes investors to sell short positions, to which they eventually are forced to buy back later at higher prices.

Given the past decade, our belief is that the worst is far behind us, and panicking due to the notion that we are in a bear market is nothing more than a trap.

Nelson Mandela is a man who was able to change the world because he lived for the future, not his difficult past. We all have a choice to live in circumstance or vision, and our perception is a direct result of this. We need to move from the circumstances of the past roughly10 years to a vision focused on only one thing: opportunity. What you get is what you see.

If we open our eyes, we will see there are many signals that are pointing to a positive market environment ahead. Consumption, the most important driver of U.S. economic growth, has surprised to the upside as well as year-over-year retail sales. And while GDP growth is slow, it is growing and offers much better prospects for the upcoming year. Consumer spending is growing, job employment is improving, and exports continue to look solid, among many other positive numbers. Compounded with the terrific fundamentals and earnings of corporations, these factors should propel growth in 2012 and beyond.

Helping you become a better investor,

Mark Simmons

TIMELY QUOTE:

"BULL MARKETS ARE BORN ON PESSIMISM, GROW ON SKEPTICISM, MATURE ON OPTIMISM, AND DIE ON EUPHORIA."

-SIR JOHN TEMPLETON

Inquires & Explanations

How often do you publish the Simmons Street Newsletter?

Our goal is to provide the newsletter to our clients and associates at least once a quarter. It is our plan, however, to publish the newsletter more frequently, such as monthly, or if we feel there are events that warrant explanations or updates.

What is the purpose of the newsletter? Why are you publishing this?

Our goal is to provide investors unbiased educational information regarding the markets. Furthermore, we understand that investors find it difficult in their time-crunched day to stay abreast of economic and investment related news to adequately stay informed. In addition, many investors have trouble finding information that isn't laced with propaganda or sales pitches. The purpose of the Simmons Street Newsletter is to provide a solution to that problem. We feel that in 5 minutes or less any individual can read this newsletter and become informed with what is going on in the markets.

Is the Simmons Street Newsletter free?

Yes! We do not sell this newsletter. It is free of charge.

Can I distribute the Simmons Street Newsletter to other people I feel can benefit from it?

Absolutely!! In fact we encourage you to send this to anyone you feel could profit from it.

I don't understand, why do you take the time to create a newsletter for free?

The goal of Simmons Asset Management is to provide investors with educational information so they can become more informed about their financial situation. Our number one priority is to help people. Our belief is that if we succeed in our goal of helping people our firm will subsequently succeed.

What should I do if I have more questions?

Give us a call or shoot us an email! We love talking about the markets and investment related information. In addition, feel free to peruse our website at www.SimmonsStrategy.com. We also post occasional blogs and post news items and other resources that we feel will be beneficial to investors.

Disclosures

For more information please visit our website at www.SimmonsStrategy.com. In addition, we can be reached by phone or email. See below for our contact information.