AMM AMERICAN MONEY MANAGEMENT, LLC

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Happy New Year ~ 2011: Year In Review

Remarkably, after all of the volatility experienced in 2011, US stocks as measured by the S&P 500 ended the year essentially flat, but bonds provided attractive total returns. Smaller and mid cap stocks closed the year down -4.2% (Russell 2000) and -1.7% (Russell Midcap) respectively, while international developed and emerging market stocks were down -12.1% (EAFE) and -18.8% (Vanguard Emerging Market) respectively. Higher quality bonds were the primary beneficiary of the extreme volatility rising more than 7% (BarCap US Aggregate) on the year. Below we present some broad highlights (and lowlights) of our investment decisions over the last year:

1. Kept our focus on long term economic reality and did not panic despite the fear inducing headlines brought on by the US debt default/downgrade concerns, Congressional paralysis, Eurozone crisis and Japanese quake/tsunami.
2. Took profits on US stock positions in May near market highs as a defensive move.
3. Reduced positions in European and Emerging Market equities and bonds in the spring due to concerns about the ongoing sovereign debt issues in Europe.
4. Increased exposure to large cap US dividend paying stocks, many of which are now reaching new highs.
5. Maintained/Increased our allocation to TIPS (Treasury Inflation Protected Securities) which benefited from both inflation *expectations* and the relative safety of US debt.
6. Maintained/Increased allocations to diversifying asset classes like commodities and real estate as an inflation hedge and to provide diversification benefits relative to our stock and bond holdings. Although these asset classes underperformed in 2011, we believe they will recover and eventually provide a solid hedge to inflation over the long-run.
7. Expected interest rates to begin rising and thus positioned our bond exposure in shorter term instruments and securities that would likely benefit from *rising rates* (floating rate notes). Of course, the story of 2011 was one of *declining* rates. Due to the Fed keeping interest rates artificially low and the still anemic global recovery, inflation in the US continues to be mild thereby keeping a lid on interest rates.
8. Allocated funds to international (minimal Eurozone exposure) and emerging market bond funds to generate higher yields on fixed income assets. While these funds have not performed as we had hoped, they continue to generate good yields in a low yield environment, and we believe these asset classes will come back into favor as Europe recovers and the global recovery plods along.

The Big Picture: Reasons For Optimisim in 2012

We first discussed the tug of war between inflation and deflation in our July 2009 client newsletter (available online at www.amminvest.com). As of this writing, there has been no clear winner. Although our base case is that inflation will eventually win, deflation brought on by global over indebtedness remains a key short term concern. The Eurozone sovereign debt crisis and ongoing US debt default/downgrade concerns are critical reminders that much of the developed world is awash in debt and that a massive default cycle could tip the global economy into a nasty deflationary spiral. While any inflation above a low stable level (2-3%) is not necessarily a good thing, it is preferable to deflation which, if it were to take hold on a global scale, would turn the great recession into the Great Depression II.

(OVER)

(The Big Picture: Reasons For Optimism in 2012 Continued)

Given the risks described above, we remain slightly underweight in stocks in our asset allocation portfolios; however, we do not believe this is a time to avoid all stock market risk. We may increase exposure here if economic conditions or valuations warrant a larger weighting. In fact, there are reasons to be cautiously optimistic as we head into 2012:

1. Stocks continue to trade at historically great values on a number of measures. (See table below.) Among our favorites ~ "Dividend Aristocrats" with a history of raising dividends each year.

S&P 500 Valuation Measures*	Latest 12/31/2011	1-year ago	3-year average	5-year average	10-year average	15-year average
Price to Earnings	***11.8***	12.9	12.7	13	14.6	16.9
Price to Book	***2.1***	2.1	2.1	2.3	2.6	3.1
Price to Cash Flow	***8.2***	8.4	8	8.6	10	11.1
Price to Sales	***1.1***	1.3	1.1	1.2	1.3	1.5
Dividend Yield	***2.3%***	2.0%	2.3%	2.3%	2.0%	1.9%

*Source: Standard & Poor's, FactSet, J.P. Morgan Asset Management

2. Bond yields and money market rates are at extreme lows forcing many income oriented investors into higher yielding assets like dividend paying stocks and real estate investment trusts.
3. Unemployment is slowly improving and more businesses are showing a willingness to hire.
4. Record numbers of Americans have reduced their home ownership expense either through refinancing their current mortgage or buying a new home at record low rates.
5. Americans are finally beginning to reduce debt and increase savings. While this may reduce consumption in the short term, in the longer run it is bullish for our economy as individuals will be much less susceptible to economic shocks.
6. Fears of state and municipal budget meltdowns have not materialized; in fact, many states are actually starting to make progress towards more balanced budgets.
7. Corporations have generally improved balance sheets and have record amounts of cash to deploy when they regain confidence about the economy.
8. Citizens are showing displeasure with Congressional gridlock on budget and deficit issues as evidenced by extremely low approval ratings. Congress may get the message and start to make progress on reasonable solutions to our budget problems. (Ok, this one might be a stretch).

WHERE WE ARE INVESTING CAPITAL NOW*

Alternative Assets: As discussed above, we continue to favor holding commodity and real estate exposure as a longer term inflation hedge. Our primary real estate holding (Alpine Global Premier Properties) pays a current distribution of more than 10% while we wait for a more sustainable real estate recovery. Additionally, we continue to hold core exposure in Silver and Gold via The Central Fund of Canada. We view this position as both a "hard currency" inflation hedge and a broad portfolio diversifier, since the pricing of these commodities tends to have little correlation with stocks and bonds over time. Finally, as discussed in prior communications, we have held a large "overweight" position in the Merger Fund as a way to obtain bond-like returns without taking the kind of interest rate risk inherent in bonds. In early 2012, we will be eliminating this position from client portfolios. While the Merger Fund performed in line with our expectations, we currently see less interest rate risk over the short run and plan to use the proceeds from this sale to boost investment grade bond holdings.

(Where We Are Investing Capital Now Continued)

Bonds: We continue to favor emerging market bonds as a way to generate decent yields in a low interest rate environment. As discussed above, we will be increasing investment grade bond holdings via the use of short and intermediate term bond funds. Additionally, we will continue to maintain our exposure to TIPS as both a "flight to safety" and inflation hedge.

Stocks: We remain optimistic about stock returns over the long term. As we often say, our crystal ball is cloudy over the short run; however, the backdrop for stock investors appears favorable given investor sentiment (extremely negative) and valuations (cheap). We continue to tilt domestic stock exposure towards large cap dividend paying holdings and smaller growth oriented funds, where applicable. Internationally, we continue to avoid the Eurozone and have focused most of our international exposure on Emerging and Frontier markets which we believe have a better risk-reward profile over the long run.

*We manage several different portfolio strategies, so not every client has exposure to the securities listed above. In addition to growth and/or income oriented asset allocation strategies, we also manage more concentrated equity portfolios that generally carry a higher degree of risk and volatility. Please contact us if you want to discuss your portfolio strategy or any of your investments in greater detail.

Enclosed is a copy of our current Privacy Notice . We can also provide you with a current copy of our SEC Form ADV Part II, at your request. Should you have any questions regarding your investment account(s), or if there have been any recent changes to your investment and/or retirement objectives, please do not hesitate to contact our office.

As always, we thank you for entrusting AMM to help you achieve your investment and retirement objectives.

Your Portfolio Management Team

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