PACIFIC GLOBAL
Investment Management Company

Weekly *Recap*

January 13, 2012

Market *Returns*

INDEX[1]	CLOSE	WEEKLY CHG	YEAR-TO-DATE CHG	12-MONTH CHG
Dow Jones Industrial Avg	12,422.06	62.14 / 0.5%	1.7%	5.4%
S&P 500	1,289.09	11.28 / 0.9%	2.5%	-0.3%
S&P 400 MidCap	906.59	15.10 / 1.7%	3.1%	-2.6%
NASDAQ	2,710.67	36.45 / 1.4%	4.1%	-1.6%
NASDAQ 100	2,371.98	15.81 / 0.7%	4.1%	2.1%
Russell 2000	764.20	14.49 / 1.9%	3.1%	-5.4%

	01/13/12 CLOSE	01/13/11 CLOSE
10-Year U.S. Treasury	1.85%	3.34%

Data: The Wall Street Journal; Federal Reserve Board

Headlines *This Week*

Trade Deficit Widens · *(For: **Nov 2011** · Source: **U.S. Department of Commerce**)*

The U.S. trade gap widened to $47.8 billion after posting a $43.3 billion deficit in October. A jump in oil imports, combined with a dip in exports, produced the larger-than-expected deficit.

Retail Sales (**+0.1%**) • *(For: **Dec 2011** · Source: **U.S. Census Bureau**)*

Retail sales edged higher following upward revisions to the October (0.7%) and November (0.4%) numbers Consumers spending increased in building materials, clothing, and food services & drinking establishments.

Looking *Ahead*

Next week's primary economic reports include:

Monday, Jan 16	**U.S. Markets Closed for Martin Luther King Jr. Holiday**
Wednesday, Jan 18	**Producer Price Index** (Dec)
	Industrial Production (Dec)
Thursday, Jan 19	**Consumer Price Index** (Dec)
	Housing Starts (Dec)
Friday, Jan 20	**Existing Home Sales** (Dec)

Equity market momentum stalled this week. Following a string of positive news, euro zone financial woes once again made headlines. Strong demand for Italian and Spanish bonds early in the week helped lower borrowing costs for these beleaguered nations. ECB Chairman Mario Draghi also offered supportive evidence that the central bank's efforts to provide liquidity was thawing credit markets. However, on Friday, ratings agency Standard & Poor's downgraded the debt of France and eight other euro zone countries. Further, negotiations between Greece and its creditors, which are seen as necessary to avoid default, have stalled. Together, the news reignited concerns of a breakdown in the region's financial system causing a selloff in equities. Bank stocks were hit particularly hard; also, cyclical sectors, such as *Energy* and *Materials*, gave back some of their year-to-date gains. The continuing euro zone saga will likely remain an overhang on stocks in the near to medium-term.

Investors seeking a blueprint for 2012 are likely looking back to last year. Then, as now, signs of a domestic economic recovery were emerging; developing countries, particularly China, were seeing greater global influence; and, the European economy was burdened by structural and political factors. The facts have not materially changed; why then should investors believe that the equity markets will outperform last year's mediocre results? In fact, something has changed: investor expectations. Entering 2011, investors were anticipating a meaningful global economic recovery. Markets rallied and optimism peaked during the first half of the year. Stocks were, therefore, vulnerable to downside surprises. The emergence of Europe's debt woes forced a shift in investor expectations which contributed to the equity market selloff in the latter part of the year. Entering 2012, investors are much less sanguine about global economic prospects. Indeed, markets seem to be applying a "European haircut" to discount for potential unknowns from the region. In this environment, markets are potentially predisposed to positive surprises, while downside risks may be somewhat subdued. As a result, the year could be much stronger for equities despite little change in underlying economic conditions.

Year-end earnings reports will accelerate next week. Investors will focus on the 4th quarter results and, more importantly, on revenue and earnings expectations for 2012. They will pay particular attention to managements' views and their prognoses for the domestic and international markets in which they operate. Earnings reports, Greek debt negotiations and any repercussions from the S&P downgrades in Europe will likely determine near-term investor sentiment.

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[1]The Dow Jones Industrial Average is an unmanaged, price weighted measure of 30 U.S. stocks selected by the Averages Committee to represent the performance of all U.S. stocks outside the Transportation and Utilities sectors. The S&P 500 Index is an unmanaged, market capitalization weighted index which measures the performance of the large cap segment of the U.S. equities market, covering approximately 75% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy. The S&P MidCap 400 Index is an unmanaged, market capitalization weighted which measures the performance of the mid cap segment of the U.S. equities market. The Index includes 400 companies chosen on the basis of market capitalization, liquidity and industry group representation. The NASDAQ Composite Index is an unmanaged, market capitalization weighted measure of all domestic and international common stocks listed on The Nasdaq Stock Market. The NASDAQ 100 Index is an unmanaged, market capitalization weighted measure of 100 of the largest domestic and international non-financial securities listed on The Nasdaq Stock Market based on market capitalization. The Russell 2000 Index is an unmanaged, market-weighted measure of stock market performance. It contains stocks of the 2,000 smallest publicly traded companies of the Russell 3000 Index.