

## **Dunbar Financial Strategies, LLC**

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Dear Dad:

While the stock market has performed better, the underlying economy remains weak. Reports are that auto sales were down 4 months in a row. The Case-Schiller Housing Report was weak as announced on December 28, 2010. Other economic indicators are mixed. Corporate profits generally are good.

The Federal Reserve continues with Quantitative Easing II. Initially, the Fed said that they were implementing quantitative easing to keep bond rates down. Bond interest rates have been rising for the last several weeks. The Fed may be debasing the currency to kindle inflation. Rising inflation might eventually support the housing market and the underwater mortgages held by the financial institutions.

The stock market has been rising in large part because of the quantitative easing. However, the general investing public is generally bullish at a high degree. This degree of bullishness often has resulted in market corrections. One reason is that there are few left to buy stocks to cause them to rise higher.

The auto market has not been performing well. The housing market has not been performing well. Though there was a decent Christmas shopping season, many will conserve in the early part of 2011 in order to pay for the spending done in the 4<sup>th</sup> Quarter of 2010. Therefore, DFS believes there is a potential risk of a dip in the stock market in 1<sup>st</sup> Quarter 2011. There is hardly any recognition of the deflation/recession priced into the market today. So, this is ignoring actual conditions. When you add rising bond interest rates this sets up further headwinds.

Therefore, though dollar weakness likely will continue we need to be careful about a moderate correction. In that event the Fed would likely increase its money printing to forestall further stock market weakness.

In addition, the public and private debt is at extreme heights. High levels of debt pressure the Fed to keep interest rates low which favor stocks, financials, and hard assets.

Emerging stock and bond markets show promise as real increases in economic activities are occurring in the developing world. Those regions may show promise for the year 2011.

Commodities have been performing extremely well as a result of developing market growth and currency devaluations. However, commodities will likely dip down if the recession is recognized by the markets. This will provide a nice opportunity to increase or re-enter commodity positions.

Gold and silver continue to do well. While there may be some correction, respected commentators indicate gold may reach \$1,650/oz. in the year 2011. Silver would likely have a higher percentage gain than gold, which traded \$1,406 in late December.

Thank you for the opportunity to assist with your investments.

Sincerely,

Thomas T. Dunbar