<u>Outlook for November, 2012: "Plus ça change, plus c'est la même chose…"</u>

With apologies to Jean-Baptiste Alphonse Kerr, the famous editor of the French magazine Le Figaro, the US elections have managed to leave us in pretty much the same place we were before the campaigns began almost two painful years ago! President Obama got another four years in office, the House of Representatives remains under Republican control and the Senate remains under Democratic control and we are now so much closer to the so called fiscal cliff. Plus ca change, indeed!

The US economy added a greater than expected 178,000 jobs in October according to the Bureau of Labor Statistics, with the private sector accounting for +184k and the government -13k. Year-to-date the economy has added an average of 157k jobs per month, slightly more than the 153k average in 2011. Yes, this is improvement, but at a snail's pace. Among sectors, October's report showed gains in professional and business services (+51k), health care (+31k), and retail trade (+7k) partially offset by mining (-9k) and government (-13k). Revisions for the previous two months showed an increase in employment of 84k (+34k in September and +50k in August).

The "broader" measures of employment have changed little over the course of the year and are downright disturbing in most cases: 12.3 million people are still unemployed, of which 5.0 million are considered "long-term" unemployed, representing 40.6% of the total. 2.4 million people were classified as "marginally attached" to the workforce and thereby excluded from the BLS data. 8.3 million people are involuntarily employed part-time due to economic reasons (i.e. their inability to become full-time employees). Given that Obamacare will now certainly stay, businesses may become more inclined to hire part-time workers for the foreseeable future; this is something to keep an eye on.

The national unemployment rate as reported by the household survey ticked up slightly to 7.9% (previously 7.8%) as a result of a rise in the labor force of approximately 578k "new" job seekers. Among minority groups, the rate gets a bit uglier: 14.3% for African Americans and 10.0% for Hispanics. This pales in comparison to the 23.7% rate for our younger generation, teenagers. A broader measure of unemployment that includes the "marginally" attached and discouraged or part-time workers, known as the "U-6" measure, moved down slightly to 14.6% (previously 14.7%).

The Bureau of Economic Analysis of the Department of Commerce released their initial estimate of 3rd quarter GDP at 2.0% (q/q, saar), better than the 2nd quarter's reading of 1.3%. The BEA will issue two revisions to this estimate over the next two months. In the report, consumer spending and government purchases drove much of the increase, most notably within durable goods orders and military spending, respectively. Exports and business investment dragged down the growth rate as economies around the world dealt with an array of fiscal and political issues.

Regional indices around the country that gauge the state of manufacturing and business sentiment continue to show moderate and "muddle along" growth. The national survey of purchasing managers, the ISM, continued to hover in expansion territory with modest improvement from 51.5 to 51.7 for November. New orders and production trended higher, while inventories, backlogs, exports, and imports dragged down the index.

On a global perspective, the JP Morgan Global Manufacturing PMI rose slightly to 49.2 from 48.8; a reading below 50 indicates contraction. This marks the fifth consecutive month of contraction. North America was the "cleanest dirty shirt" of the bunch, and Europe continues to wrestle with austerity and fiscal imbalances, as is evidenced from the report. The best that can be said is that recessionary forces are still "at bay". The JP Morgan Global Services Index provided a reading of 53.8 (up from 52.1); this is the 39th consecutive month in expansion territory.

Interestingly, despite the close nature of the opinion polls leading into Election Day, President Obama won handily in the Electoral College count. President Obama also garnered a clear plurality of the votes cast, winning the popular vote by a decisive margin of over 2 million votes. While Democrats picked up a few Senate seats thus increasing their majority in that august house, the Republicans gained more seats in the House of Representatives as well.

At the end of the day, the rancor and polarization that is symbolic of a dysfunctional Washington DC is, in our opinion, unlikely to change. Each party believes that they have a mandate from the hustings and they will probably find it hard to reach across the aisle to compromise. Much has been made of the idea that President Obama would essentially move "to the middle" in his second term – as he would essentially be playing for placing himself high on the of Pantheon of Presidents (there were a mere 43 ahead of him!). If wishes were horses, fools would fly indeed!

Regardless of the way forward, it is quite apparent that time is running out for the politicians to ***"kick the can down the road"*** in a lame duck session of Congress between now and the end of the year. While we do expect a deal will eventually be struck, given the newfound willingness in Washington DC to compromise now, we suspect that as usual the devil will be in the details.

We fully expect that tax rates will likely go up on both ordinary incomes as well as on capital gains for next year, but we suspect that Congress will resort to stealth increases – for example, limiting the size of the mortgage interest deduction and also perhaps limiting the deductions on charitable giving. Like most things coming out of Washington DC, it will probably end up pleasing no one in particular, but making all parties feel that they did give up something. Plus ca change, indeed!

Earnings for S&P500 companies have come in worse than expected for 3Q2012. Non-financial companies have reported a share-weighted ***decline*** of -2.5% per share earnings decline on a year-on-year basis. While expectations for next year (2013) are still elevated, valuation mutiples are not expensive, thus providing a mixed picture for prognosticators.

Farther afield, a statement by Mario Draghi, the head of the European Central Bank alluding to increasing downside risks in the German economy have also roiled markets. While this should come as no surprise to seasoned European watchers, the fact that the head of the European Central Bank felt compelled to talk about the downside risks to an economy like Germany is a little surprising. For months now we have noted with interest the significant loss of momentum in railcar as well as container loadings across the world in the European Union, Japan and China.

Speaking of the Middle Kingdom, the country has begun the once in a decade process of anointing a new leader: Xi Jingping is slated to take over from Hu Jintao over the next few months as the Premier. While not much is known about Xi's own political as well as reform views, many analysts believe that he will attempt to place the Chinese economy's growth path on a more sustainable basis.

Xi Jingping might use the opportunity to stimulate the economy further, but he will not be able to put his imprint on economic policy for a few more quarters to come. However, as a princeling and someone with experience in commercial centers like Shanghai as well as having a hand in running the famous Beijing Olympics of 2008, it is expected that Xi Jingping will further economic growth for China.

In summary, the more things change, the more they stay the same. This does not appear to be a period to take on a lot of risk in portfolios: Accordingly, your portfolios are positioned ***on a relatively defensive basis.*** Our abiding faith in a fully diversified portfolio - that has a balanced approach to both risk and return - as the main way to attain favorable investment outcomes over the long haul remains steadfast.

This report was prepared by

Suresh Raghavan, CFA and Clark Blackman III
MBR Financial, Inc.
2000 West Loop South, Suite 1510
Houston, TX 77027

www.mbrfinancial.com

For further information please contact us at
Voice: 832.667.8787
Fax: 281.974.2108
Email: contactus@mbrfinancial.com

Important Disclosures

Securities and investment advisory services offered through FSC Securities Corporation, a registered broker Member FINRA/SIPC, a registered investment adviser. The views expressed are not necessarily the opinion of FSC Securities Corporation. MBR Financial, Inc. is not affiliated with FSC Securities Corpraton or registered as a broker-dealer or investment advisor.

If you do not wish to receive marketing e-mails from this sender, please reply to this e-mail with the word REMOVE in the subject line. This message and any attachments contain information, which may be confidential and/or privileged, and is intended for the use only by the intended recipient, any review, copying, distribution or use of this transmission is strictly prohibited. If you have received this transmission in error, please (i) notify the sender immediately and (ii) destroy all copies of this message.

Investing involves risk including the potential loss of principal. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio in any given market environment. No investment strategy, such as asset allocation, can guarantee a profit or protect against loss in periods of declining values.

Past performance is not a guarantee of future results.

In general, the bond market is volatile as prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Indices cannot be invested in directly, are unmanaged and do not incur management fees, costs and expenses.

The price of commodities, are subject to substantial price fluctuations over short periods of time and may be affected by unpredictable international monetary and political policies.

This memorandum is based upon information generally available to the public from sources believed to be reliable. No representation is made that it is accurate or complete.