Schaper, Benz & Wise
INVESTMENT COUNSEL, INC.

Economic & Market Summary
January 2012

Real GDP growth continued to accelerate in the fourth quarter, confounding many economists who only a few short months ago were forecasting a double-dip recession. Growth did slow last winter, but began regaining momentum in the spring. We expect Q4 real GDP growth to be at least 3% compared to 1.8% in Q3, 1.3% in Q2 and 0.4% in Q1. Personal consumption, the largest component of GDP, has grown steadily since the U.S. emerged from recession in the summer of 2009. Job and wage growth are the key contributors. Over the past 12 months, job growth has averaged 133,000 per month while wages have increased 3.3%. Recent declines in unemployment claims signal further acceleration of job growth in 2012. Residential investment has been a drag on GDP growth since 2007, but we see evidence of a turnaround. Housing starts, currently at 685,000 units per year, have grown for five consecutive quarters yet still fall below household formation. For perspective, 2001 housing starts were 1.7 million and peaked at 2 million in 2005, while household formation averaged 1.3 million for the past 10 years. We expect residential investment will become a contributor to the economic expansion, driven by population growth, household formation, and the fact that two-thirds of the housing stock in the U.S. is over 30 years old. Depletion of business inventories has negatively impacted GDP growth in three of the last four quarters. We expect this GDP component to reverse next year as well. Businesses are running lean and have plenty of cash to invest. While business investment increased strongly in 2011, some growth was pulled from 2012 due to accelerated depreciation allowances that were due to expire on December 31, 2011. Business investment could be a modest drag in 2012, particularly in the first half of the year. Taken together, the positive influences of personal consumption, residential investment, and inventories should offset potentially weaker business investment resulting in GDP growth of 2-3% in 2012.

Inflation moderated in the fourth quarter of 2011. In November, the consumer price index was unchanged sequentially and increased 3.4% vs. a year ago. The Federal Reserve focuses on core inflation (excludes food and energy), which in November increased 0.2% sequentially and 2.2% over last year. Core inflation over the last 12 months has ranged from 0.6% to 2.2%. The Fed views this as justification for maintaining its low interest rate policy. We're more worried about inflation risk and continue to approach fixed income investments with caution. Yields on short- and medium-term U.S. Treasuries are well below historical and expected levels of inflation, which is highly abnormal.

The U.S. banking system continues to strengthen. A significant hurdle was cleared with the finalization of the Basel III accords, which established universal capital requirements for banks across the globe. On balance, this should have the effect of increasing credit availability. Many U.S. banks have been holding excess capital and liquidity in anticipation of more restrictive regulations. While regulatory pressure remains intense for the banking industry, we are quickly moving away from the 2008-09 crisis period.

The S&P 500 had a tumultuous year; appreciating 8% through April, then declining 20% by October before recovering to end the year flat despite earnings growth of roughly 17%. Daily headlines from Europe regarding the well-documented debt struggles have led to enormous volatility in world markets. While there is no doubt that economic conditions in Europe will be weak, we do not expect the Euro to collapse nor do we believe growth outside the continent will be materially impaired. For 2012, we expect operating earnings for the S&P 500 to exceed $100. With a P/E ratio of 12.6x and a dividend yield of 2.2%, stocks look attractive. When compared to bonds (10 year U.S. Treasury yield at 1.9%), stocks look even more compelling. Equity valuations continue to reflect an elevated level of investor apprehension, which typically is the time when above-average returns begin to take hold.

Thomas H. Rippl, CFA

To request our SEC Form ADV Part II, please contact Michael L. Wise, Chief Compliance Officer, at the address below.

18 JEWELERS PARK DRIVE • SUITE 200
P.O. BOX 628 • NEENAH, WISCONSIN 54957-0628
920-727-1137 • FAX 920-727-1139
sbw@sbw-invest.com • www.sbw-invest.com