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Tough Problems, Tough Solutions

Weekly Update – May 14, 2012

Concerns about Europe and the global economy set a negative tone last week and markets closed out at a loss. The S&P lost 1.15%, while the Dow lost 1.67%, and the Nasdaq 0.76%. On a positive note, the U.S. economy continues to slowly improve as evidenced by a surprisingly positive consumer sentiment report, showing that American consumers are still upbeat about the economy. Jobless claims held steady for the week and some analysts speculate that the unusually high unemployment claims seen in the first weeks of April were the result of seasonal adjustment and not actual job losses. Earnings season is winding down, but a few key players such as Disney, Macy's, and Kohl's posted better-than-expected earnings.ⁱ (These opinions are not to be construed as investment advice)

Eurozone troubles were at the core of investor concerns last week as realization dawned that in order to keep the European Union (EU) together, the European Central Bank (ECB) will have to pump trillions of euros into the monetary system. Germany is likely to face high inflation rates for the next few years as it struggles to help the economies of its partner countries. Still haunted by the hyperinflation of the early 1920s, German voters may balk at the spending required to keep the euro afloat, pressuring politicians to balance needs with voter concerns – something that is never easy to do.

The recent European elections may also make it difficult for Europe to make headway against its debt troubles. Hollande, the new Socialist president in France, has promised voters not to continue with strict austerity measures. While this is appealing to the masses, it could lead to additional downgrades on French debt, thus making problems worse. In Greece, the majority parties won less than 35% of the votes, giving significant headway to fringe parties. This development, combined with popular sentiment so opposed to necessary austerity measures, has made it increasingly likely that Greece will leave the Eurozone. While the EU can probably survive the exit of Greece, in order to preserve its integrity, it will be critical for the ECB to prevent the default (and exit) of Spain or any of the larger economies. The ECB is the only entity in Europe with the power to save Spain from default – however, the only way to do so is by printing a ton of money, and risking inflation and currency devaluation.ⁱⁱ

What all this means for U.S. investors is this: The crisis in Europe is far from over, and we should not be surprised by volatility and uncertainty right now. If European politicians, nervous about losing elections, refuse to make hard budget decisions, Europe's crisis may deepen and threaten the stability of the euro. It is

impossible to know what the future holds for Europe, but with every downside usually comes an upside somewhere else. We work hard to identify those upsides, and to adjust our clients' investment strategies where necessary. Thank you for the trust you've placed in us.

ECONOMIC CALENDAR:

Tuesday: Consumer Price Index, Retail Sales, Empire State Mfg. Survey, Treasury International Capital, Business Inventories, Housing Market Index

Wednesday: Housing Starts, Industrial Production, EIA Petroleum Status Report, FOMC Minutes

Thursday: Jobless Claims, Philadelphia Fed Survey

Data as of 5/11/2012	1-Week	Since 1/1/2012	1-Year	5-Year	10-Year
Standard & Poor's 500	-1.15%	7.62%	0.84%	-2.02%	2.83%
DOW	-1.67%	4.94%	1.51%	-0.76%	2.90%
NASDAQ	-0.76%	12.62%	3.12%	2.90%	8.33%
MSCI EAFE	-2.12%	3.29%	-13.99%	-5.50%	2.23%
10-year Treasury Note (Yield Only)	1.88%	N/A	3.16%	4.67%	5.13%

Notes: All index returns exclude reinvested dividends, and the 5-year and 10-year returns are annualized.

Sources: Yahoo! Finance, MSCI Barra. Past performance is no guarantee of future results.

Indices are unmanaged and cannot be invested into directly. N/A means not available.

HEADLINES:

Falling gas prices cause wholesale prices to drop in April. Wholesale gas prices tumbled to an average of \$3.74 last week, nearly 20 cents cheaper than a month ago. With falling energy costs, consumers will have more money to spend on other purchases, which usually boosts the economy.ⁱⁱⁱ

Chinese industrial production slowed to 9.3% in April, down from 11.9% in March, signaling that the Asian giant may be in trouble. Analysts had predicted a jump to 12.2%.^{iv}

JP Morgan Chase reports \$2 billion loss in derivatives portfolios. The bank, the largest in the U.S. by assets, incurred the trading loss by mishandling a portfolio of complex financial derivatives. Additional losses may occur as the bank unwinds its positions.^v (These opinions are not to be construed as investment advice)

U.S. records first monthly budget surplus since 2008. The federal government recorded a \$59 billion surplus as tax receipts were greater than expenditures. Though this is certainly welcome news, it is unlikely to be the start of a trend.^{vi}

QUOTE OF THE WEEK:

"The best way to predict the future is to create it." - Abraham Lincoln

RECIPE OF THE WEEK:



Amazing Chicken Curry in a Hurry

Perfect for a weeknight meal, this aromatic curry is both healthful and fast!

Recipe from RealSimple.com.

Ingredients:

- 1 cup white rice
- 1 1/2 tablespoons olive oil
- 1 small yellow onion, thinly sliced
- 2 teaspoons curry powder
- 1/2 cup plain yogurt
- 3/4 cup heavy cream
- 1/2 teaspoon kosher salt
- 1/4 teaspoon black pepper
- 1 14.5-ounce can diced tomatoes, drained (optional)
- Meat from 1 rotisserie chicken, sliced or shredded
- 1/4 cup fresh cilantro leaves, roughly chopped

Directions:

1. Cook the rice according to the package directions.
2. Heat the oil in a skillet over medium-low heat. Add the onion and cook, stirring occasionally, for 7 minutes.
3. Sprinkle with the curry powder and cook, stirring, for 1 minute.
4. Add the yogurt, and cream and simmer gently for 3 minutes. Stir in the salt, pepper, and tomatoes (if desired). Remove from heat.
5. Divide the rice and chicken among individual bowls, spoon the sauce over the top, and sprinkle with the cilantro.

GOLF TIP OF THE WEEK:

Go Big or Go Home

When a clubhead is oversized, a higher percentage of its weight is moved toward the outside. Have you heard the term "perimeter weighted"? This is what it refers to.

A head that has more weight on its perimeters will tend to twist less when hit off-center. The scientific label for this is, "higher moment of inertia." Clubs with larger heads, be they woods, irons, or putters, will not twist as much when you hit them imperfectly. The result is straighter - and longer - shots. Bigger may indeed be better when it comes to clubhead size.

HEALTH TIP OF THE WEEK:

Make Simple Diet Changes

Most of us probably agree that we should eat a more healthful diet. However, making large changes in a diet can be difficult and overwhelming when there are multiple palates to consider. Try gradually introducing a few simple changes like the following:

Eat more fruit. Adding fruit to cereal, salads, or as a meal side can add valuable vitamins while replacing high-calorie options.

Sneak in more veggies. Add them wherever you can--a tomato on your sandwich, peppers on your pizza, or extra veggies in your pasta sauce. Pre-cut veggies can also make great quick snacks.

Switch your salad dressing. If you eat full-fat dressing, switch to something lighter occasionally, or water down your full-fat dressing to eat fewer calories with each serving.

Eat low-fat or fat-free dairy. Switching to skim milk or fat-free yogurt is another simple way to eat fewer calories without having to change too much in your diet.

GREEN TIP OF THE WEEK:

Seal Your Garage to Keep Hazardous Fumes Out

Garages are often full of cleaning products, pesticides, paints, and other hazardous chemicals. They also contain the combustion byproducts from car engines – including carbon monoxide. If your garage is attached to the house, keep these dangerous fumes out of your house and away from your family by

ensuring that the door from the house to the garage has a tight, high-quality seal around the entire perimeter, including the threshold.

Best Regards,
Leonard L. Pickering ChFC

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Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia.

The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

The Housing Market Index (HMI) is a weighted average of separate diffusion indices based on a monthly survey of NAHB members designed to take the pulse of the single-family housing market. Each resulting index is then seasonally adjusted and weighted to produce the HMI.

The BLS Consumer Price Indexes (CPI) produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services. Survey responses are seasonally adjusted and weighted to produce a composite index.

The Conference Board Leading Economic Index (LEI) is a composite economic index formed by averages of several individual leading economic indicators, which are weighted to produce the complete index.

Google Finance is the source for any reference to the performance of an index between two specific periods.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decision.

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ⁱ <http://biz.yahoo.com/mu/update.html>

ⁱⁱ <http://www.johnmauldin.com/images/uploads/pdf/mwo051212.pdf>

ⁱⁱⁱ <http://www.usatoday.com/money/economy/story/2012-05-11/wholesale-price-index/54900278/1>

^{iv} http://money.cnn.com/2012/05/11/news/economy/china-cpi-inflation/index.htm?iid=SF_E_LN

^v <http://online.wsj.com/article/BT-CO-20120511-715864.html>

^{vi} http://money.cnn.com/2012/05/10/news/economy/budget-deficit/index.htm?iid=SF_E_River