Falcon Financial Management, Inc.

February 2, 2012

Dear Friends,

The new year begins…

As we reflect on 2011, it was a year full of challenges, both the S&P 500 and the Dow Jones struggled to finish the year in the black. We can expect 2012 to bring its own set of challenges. The biggest challenge I think we will have in 2012 is the presidential campaign. Along with electing a President and Congress, many states are also going to be voting for Senators and the leaders of their states. I expect these campaigns to be amongst the most negative and expensive we have ever seen. Our country seems poised to make decisions that will affect many generations into the future.

The questions of what our future tax rates are going to be, how we will reduce our deficit, how we will defend ourselves and how we will continue to fund our social and health entitlement programs seem to have polarized our country. Answering those questions will be the focus of 2012.

So what can we expect going forward from a macroeconomic perspective?

Bill Gross of PIMCO Funds has coined the term "New Normal". The New Normal suggests that in the future we should be expecting more modest returns than we've seen as well as considerably more volatility than we've seen in the last 75 years. The volatility that we have seen in the last year or two is what we should expect going forward. The stock market can move up and down 1% to 2% in any one day.

Our outlook for 2012 continues to remain cautiously optimistic. While there is plenty to worry about globally, particularly the European financial crisis, Iran, and domestic policy decisions both fiscal and monetary, we can take some comfort that here in the U.S., corporate earnings continued to grow, our economy, while still delicate, is muddling through with positive GDP numbers.

One hopeful item is that it is an election year. Traditionally, election years are positive for equities. Since 1928 there have been 21 Presidential elections with only three of those years producing negative returns for the S&P 500.

Another issue is unemployment, and while it is currently near 9% it has been very slowly trending down. A continuing drop in the unemployment rates may be aided over the next decade by the baby boomers as we begin to retire.

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Until we have more clarity on the U.S. election, domestic policy decisions, and the European financial crisis our outlook will remain cautious. We believe that by the end of the second quarter, we will begin to have more clarity on these subjects. We expect stock market volatility to continue and if this happens we will make any necessary changes to reflect our outlook at that time.

In the meantime, we will remain vigilant and continue with our current strategy. This means continued emphasis on dividend paying stocks, less exposure to foreign currency risk and continuing to clip coupons from the bond portion of our portfolios.

As always, we continue to manage risk first and look for return second. This has become our mantra and has worked well for us during difficult economies, and 2011 was one of the toughest.

Here is a quick look at the end of the year numbers for 2011:

The Scoreboard
(www.investmentadvisor.com)

	1st Q 2010	2nd Q 2010	3rd Q 2010	4th Q 2010	2010	1st Q 2011	2nd Q 2011	3rd Q 2011	4th Q 2011	2011
DJIA	**4.1%**	**-10.0%**	**10.4%**	**7.3%**	**11.0%**	**7.1%**	**2.5%**	**-5.9%**	**12.8%**	**8.4%**
S&P 500	**4.9%**	**-11.9%**	**10.8%**	**10.2%**	**12.8%**	**5.9%**	**1.8%**	**-7.4%**	**11.8%**	**2.1%**
NASDAQ	**5.7%**	**-12.0%**	**12.3%**	**12.0%**	**16.9%**	**5.0%**	**2.1%**	**-6.8%**	**8.2%**	**-0.8%**
LBAB	**1.8%**	**3.5%**	**2.5%**	**-1.3%**	**6.5%**	**0.4%**	**2.6%**	**3.1%**	**1.1%**	**7.8%**

(Investors cannot invest directly in indexes)

The volatility and the news have been, and continue to be, scary. There are many companies that profit from the fear that the news spreads. Many of our clients who own REITS have been contacted by companies that want to buy their REITS for deep discounts. We believe that the investments we have made in the REITS continue to be strong investments with dividends that have met our expectations. (As you know, past performance is not a guarantee of future performance with these investments as well as any other investments you have). We would not recommend that you sell your REITS to these "bottom fishers"; they are looking for folks who are in trouble and who need to sell their REITS. If, in fact, you had an emergency and we needed to liquidate your REIT we have found better prices in the secondary market. If you have questions or concerns about your REITS please call us and we will discuss it with you.

We are here to solve problems. It's what we do. Even though, on whole, I am not recommending changes, your individual situations may change and as they do we may need to make individual changes for you.

Do not hesitate to let Darla or me know if there is anything you need from us. When we can assist, we will.

I also want to invite all of you to join Chris and me on Saturday mornings at 8:30, where we will continue to be hosting Dollars and Sense on 97.3 FM. If you are not in Gainesville, our show is also available via the Internet. So check us out on Saturday mornings. If you have questions or topics that you would like us to be discussing then please give Chris a phone call or drop him a line at Chris@ffmonline.com.

I also want to take this opportunity to ask you to remember us when friends and family are struggling with these same questions going forward. Many folks are in retirement plans that don't offer them the kind of investment and planning advice that we provided for you. We have built this business on referrals, on the idea of working with a lot of people just like you. We appreciate you and would like to help those around you.

Thank you for your continued friendship and support.

Best wishes,

Jeff Davis, CFP®
President

All economic and performance information is historical and not indicative of future results. All views expressed in this letter are those of Jeff Davis, CFP® and should not be construed as investment advice. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. Additional risks are associated with international investing, such as currency fluctuations, political and economic stability, and differences in accounting standards

REITS are subject to various risks such as liquidity and property devaluation based on adverse economic and real estate marker conditions and may or may not be suitable for all investors. A prospectus that discloses all risks, fees and expenses will be delivered at the seminar. Please read it carefully before investing.