January 18, 2012

ASG Weekly

Advisory Services Group

Timely Topics This Week

Please refer to Page 16 of this report for Important Disclaimers Information current as of 01/18/12; contact your financial advisor for additional information. Prices as of 01/17/12.

Investment Strategy

Help from overseas

The U.S. economy has weathered many problems during the past year and has proven more resilient than many investors expected. The good news is the U.S. economy could benefit if inflation subsides this year. That's because several of the foreign countries that raised interest rates to fight inflation early last year could cut interest rates early this year if inflation decreases as the global economy slows down.

The latest U.S. economic data show consumer sentiment continues to recover from the shock to confidence last summer. Equally important, small business sentiment is also improving, potentially setting the stage for more job creation in the months ahead. The U.S. economy still faces many problems, but conditions do not seem to be as bad as many investors feared six months ago.

Unfortunately, things do not look this good overseas. Several countries in Europe already appear to be in recession, making it even harder for them to pay their debts. Consequently, nine European countries had their credit ratings downgraded by Standard and Poor's credit rating agency last week. Of course, this news was not unexpected, and investors did not overreact. In fact, most of the major European stock markets rallied on the first day of trading after the announcement. This shows that investors are taking bad news relatively well, suggesting that a lot of disappointing news is already priced into the European stock markets.

The initial positive European stock market response to the debt downgrades may also indicate that investors are anticipating that something good could come after all this bad news. For example, the debt downgrades could make European policymakers more resolute in their efforts to find a way to restrain future government deficits. Moreover, slower economic growth may also dampen inflation this year, opening the door for policymakers to cut interest rates further.

The European Central Bank already cut interest rates twice late last year and could cut interest rates one or two more times early this year if inflationary pressures moderate. Even the Chinese monetary authority could cut interest rates during the next few months if Chinese economic growth slows down and inflation subsides.

Here at home, the U.S. stock market continued to trend higher during the past week. U.S. investors seem to be focused more on the health of the U.S. economy rather than on the problems in Europe or the economic slowdown in Asia. Obviously, not all the U.S. economic news is positive, but more economic reports have been "good" rather than "bad," recently. Therefore, the stock market seems to have a positive bias, and the underlying character of the market is looking better this month.

Investors seem to be less defensive as sentiment improves. The more volatile cyclically-sensitive sectors of the U.S. stock market have been doing better this month than the less volatile defensive sectors. If the defensive sectors were leading the way in the latest market advance, the risk of a prolonged downturn would probably be greater than it is when the cyclically-sensitive sectors are leading the way.

Looking ahead, the recovery in the U.S. stock market is probably due for a correction at some point in the next week or two. A slow and steady advance, as we have seen during the past few weeks, can make market participants a bit complacent. When that happens, unexpected bad news can lead to some profit taking. Nevertheless, we believe the longer-term fundamentals still favor modestly higher stock prices in 2012. If inflation subsides and foreign central banks cut interest rates this year as we expect, stocks are likely to do better than they did last year when rising inflation and interest rate hikes aggravated the European debt crisis and depressed investor sentiment. Fortunately, sentiment has improved during the past few months because economic conditions and the global stock markets appear to be stabilizing as investors look beyond all the negative news of the past year.

Gary Thayer, Chief Macro Strategist

Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. These risks are heightened in emerging markets.

Investment Strategy (continued)

Economic calendar

Date	Report	Estimate	Previous
1/18/2012	MBA Mortgage Applications	- -	4.50%
1/18/2012	Producer Price Index (MoM)	0.10%	0.30%
1/18/2012	PPI Ex Food & Energy (MoM)	0.10%	0.10%
1/18/2012	Producer Price Index (YoY)	5.10%	5.70%
1/18/2012	PPI Ex Food & Energy (YoY)	2.80%	2.90%
1/18/2012	Total Net TIC Flows	$50.0B	-$48.8B
1/18/2012	Net Long-term TIC Flows	$40.0B	$4.8B
1/18/2012	Industrial Production	0.50%	-0.20%
1/18/2012	Capacity Utilization	78.10%	77.80%
1/18/2012	NAHB Housing Market Index	22	21
1/19/2012	Consumer Price Index (MoM)	0.10%	0.00%
1/19/2012	CPI Ex Food & Energy (MoM)	0.10%	0.20%
1/19/2012	Consumer Price Index (YoY)	3.00%	3.40%
1/19/2012	CPI Ex Food & Energy (YoY)	2.20%	2.20%
1/19/2012	Consumer Price Index NSA	225.782	226.23
1/19/2012	CPI Core Index SA	- -	226.836
1/19/2012	Housing Starts	680K	685K
1/19/2012	Housing Starts MOM%	-0.70%	9.30%
1/19/2012	Building Permits	680K	681K
1/19/2012	Building Permits MOM%	0.00%	5.70%
1/19/2012	Initial Jobless Claims	384K	399K
1/19/2012	Continuing Claims	3590K	3628K
1/19/2012	Bloomberg Consumer Comfort	- -	-44.7
1/19/2012	Bloomberg Economic	- -	-17
1/19/2012	Philadelphia Fed.	10.3	10.3
1/20/2012	Existing Home Sales	4.65M	4.42M
1/20/2012	Existing Home Sales MoM	5.20%	4.00%
1/24/2012	Richmond Fed Manufact. Index	5	3

Source: Bloomberg

International Strategy

Reviewing outlook on commodities

After bottoming in 2009, commodities rallied with international markets as the financial crisis of 2007-2008 faded. However, commodities have had two notable stumbles within the uptrend. The first one was in 2010 as fears of a double-dip recession sparked a sell-off. The second pullback began in early 2011 and remains in effect. We reduced exposure to commodities in mid-November on a tactical basis and remain underweight. We recommend investors take advantage of price strength to trim positions in commodities in line with tactical asset allocation recommendations as the first half of 2012 will remain volatile. We believe better opportunities to add to commodities will present themselves later in the year.

Recent performance

The Dow Jones UBS Commodity Index is up approximately 38% since its spring 2009 lows (through the close on Friday). In contrast, it is down approximately 20% from its spring 2011 highs (through the close on Friday). This decline is largely a result of European debt and global growth concerns. We believe that these concerns could linger for the first half of 2012 as European policy makers struggle to inspire confidence amongst investors, and Chinese officials attempt to engineer a soft landing in the world's second largest economy. Our outlook calls for greater visibility on both fronts in the second half of 2012 and surprises could be to the upside. Our cautious approach to international markets prompted us to reduce exposure to commodities last fall with oil prices, which makes up a large percentage of commodity exposure, rising above our year-end 2011 target and close to our 2012 target. Commodities, and specifically oil, have stagnated for the past few months and could remain so for the next few months.

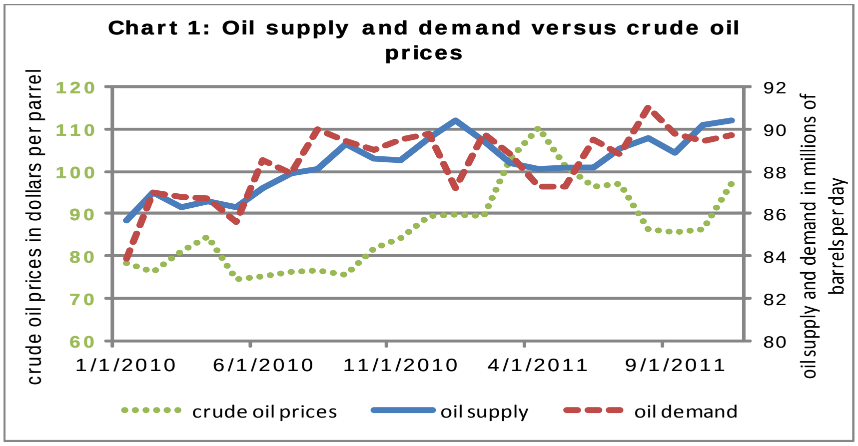
Outlook for the coming quarters

In our view, one of the reasons for the muted outlook is an increase in oil supplies relative to oil demand. Chart 1, on page 2, shows that the frequency of oil supplies exceeding oil demand is increasing. We believe this reflects the slowing of global growth and reduced consumption. The supply has remained fairly steady even with concerns over Mideast tensions. This imbalance has been a headwind for oil over the last few months and could remain this way through the first half. Another reason for weakness in commodity prices is the slowing of growth in China. Chart 2 below shows Chinese PMI (Purchasing Manager's Index) data has been decelerating since late 2009 and has been a leading indicator for copper (an important economically sensitive commodity) prices. As growth has slowed inflation pressures have eased and copper and commodity prices have declined. We believe this allows room for Chinese authorities to implement domestic stimulus in 2012. If growth reaccelerates in the second half, as our outlook would suggest, then copper and commodity prices could respond favorably. Lastly, our outlook calls for further appreciation in the dollar for the first half of 2012. However, in the second half, the pace of appreciation should begin to slow. This would provide another positive for commodities in the second half.

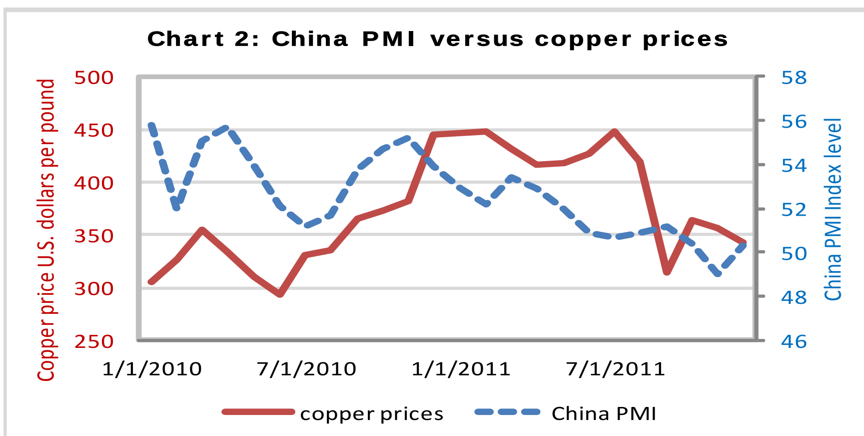
Recommendations

We recommend investors who have a greater than recommended allocation to commodities, as per the strategic and tactical asset allocation models, to reduce their exposure on strength and hold the proceeds in cash for better opportunities. For those investors who are already in line and for those looking to add exposure, we recommend patience until the next round of disappointment leads to a better opportunity to add exposure.

International Strategy (continued)



Source: Bloomberg/Wells Fargo Advisors
Data sample: Jan. 2010 through Dec. 2011



Source: Bloomberg/Wells Fargo Advisors
Data sample: Jan. 2010 through Nov. 2011

Past performance is not a guarantee of future results.

Sameer Samana, CFA; International Investment Strategist

Buying commodities and/or precious metals allows for a source of diversification for those sophisticated persons who wish to add these types of investments to their portfolios and who are prepared to assume the risks inherent in these markets. Any purchase represents a transaction in non-income-producing commodity and is highly speculative. Therefore, commodities and/or precious metals should not represent a significant portion of an individual's portfolio.

Equity Strategy

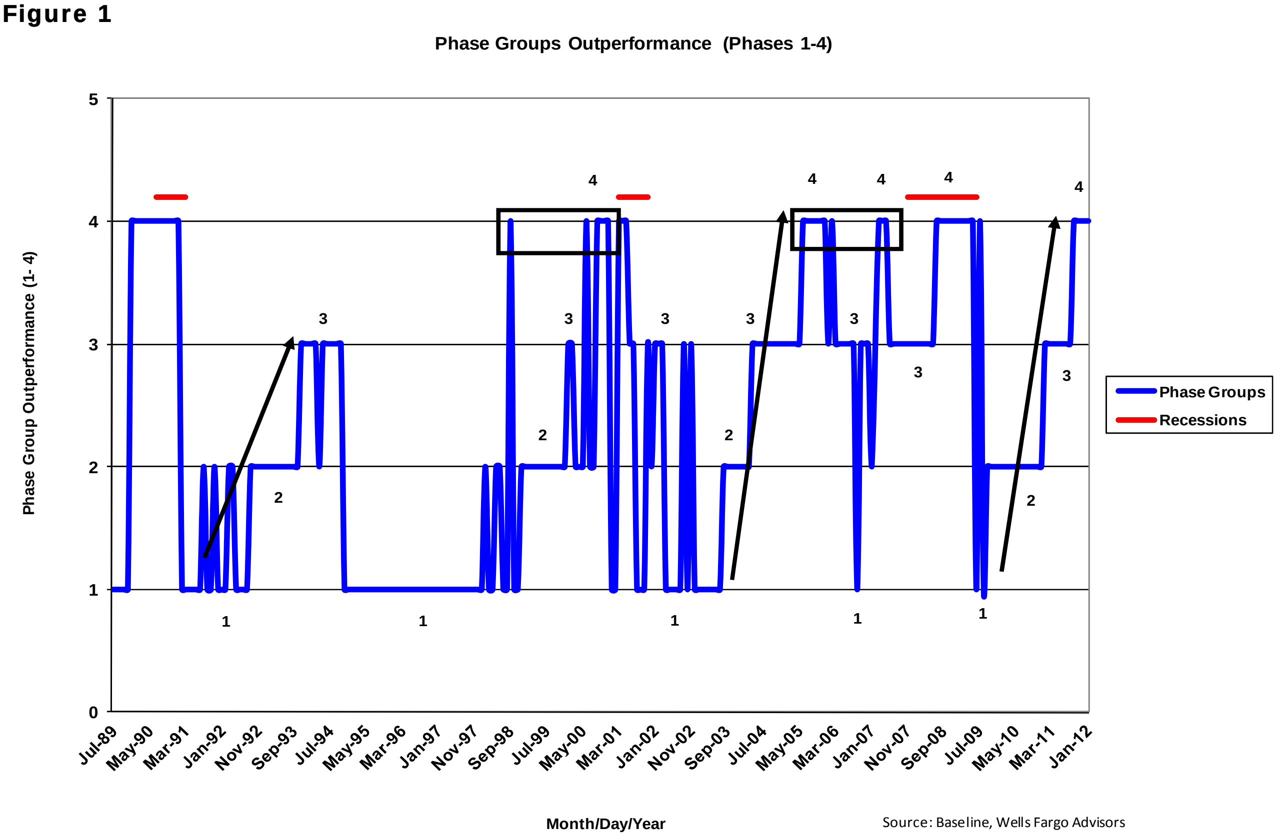
Phase group performance

We continue to recommend investors maintain portfolios well-balanced between cyclical and defensive issues. However, the continuation of better economic growth is likely to slow the outperformance of the late-stage stocks in coming months as confidence slowly lifts.

This week, we revisited the relative performance of the four "Phase Groups" (early, early-mid, late-mid and late cycle outperformers). We plotted the types of stocks (Phases 1-4) that generated trailing 12-month outperformance back to mid-1989 (Figure #1). Certain industry groups and sectors have a tendency to outperform at different stages of economic/market cycles. For instance, while the outperforming sectors during recession tend to include the interest rate sensitive Financial sector and the defensive Health Care and Consumer Staples sectors, the Phase 2 (Consumer Discretionary, Industrials) stocks tend to include the more cyclical consumer and industrial sectors as the economy starts to recover. Generally, outperformance progresses from Phase 1 (Consumer Staples, Health Care, Financials) toward Phase 4 (Consumer Staples, Health Care, Utilities, Energy) stocks from early in a cycle toward late in a cycle. However, it is quite common to experience a full outperformance rotation from early-cycle to late-cycle stocks by as early as the middle of an economic cycle. In the first figure, we have shown recessionary periods with a red line. The blue line represents the Phase Group of stocks that were dominating over time. Note that the black arrows represent the movement from early cycle toward later cycle stocks from the middle of recessions into the beginning years of economic recovery.

At mid-cycle, there is often an extended period (sometimes years) during which outperformance moves to early- and mid-stage stocks, again,

Figure 1



Past performance is not a guarantee of future results.

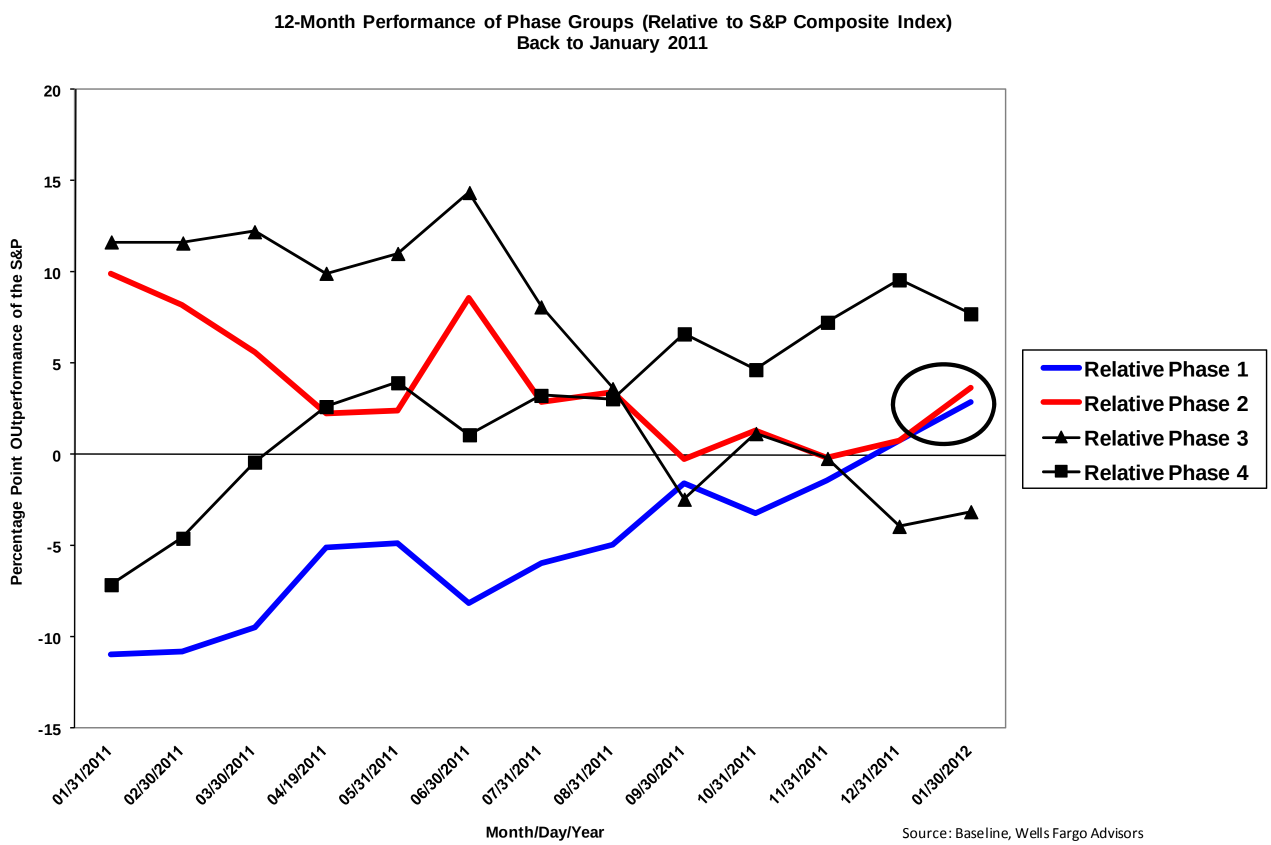
Equity Strategy (continued)

before it returns late in the cycle to the lastest stage outperformers. In this recovery, Phase 1 (early) stocks outperformed for the trailing 12-month periods through June-August 2009. Phase 2 stocks outperformed the trailing year periods ending September-December 2010, Phase 3 (Industrials, Energy, Materials) stocks led the market for the years through January-August 2011, and Phase 4 stocks have taken first place in the years through September 2011 and today.

In the early 1990s, we saw dominance move from Phase 1 to Phase 2, then Phase 3 stocks. The Phase 1 stocks then outperformed during the trailing 12-month periods through November 1994 and April 1998. Trailing 12-month outperformance initially came to the Phase 4 stocks more than two years before the 2001 recession. During the market recovery following the 2001 recession, stock outperformance progressed from Phase 1, to 2, to 3 and then Phase 4 stocks. But then, the market moved through a relative rebound period for early-cycle stocks (representing more of a risk-on period). The length of time between the first year of late-stage stock outperformance (Phase 4) and the 2007-2008 recession was roughly two and a half years.

Although year-to-year performance today is still being led by the Phase 4 stocks (as shown at the right side of the graph in Figure #2), Phase 1 and Phase 2 stocks have quickly picked up steam in the last few months. This is visible in the second figure, where we have plotted the more recent progress of the four phase groups relative to that of the S&P Composite Index. Note, particularly, that while the Phase 3 stocks (black with triangles) have been lagging, the other three, the Phase 1 and 2 stocks (red and blue lines) have recently surpassed the Phase 3 stocks and are gaining on the leading late cycle sectors (Phase 4, in black with square boxes).

Figure 2



Past performance is not a guarantee of future results. An index is not managed and is unavailable for direct investment.

Equity Strategy (continued)

In short, just as it is typical for investors to go through a process of favoring cyclically sensitive stocks early in a recovery to chasing more defensive stocks before mid-cycle (and then cycling back through a period of cyclical stock revaluation), they also tend to rush through a full rotation of Phase 1 to Phase 4 stock outperformance before mid-cycle, but then circle back toward earlier cycle stocks as the economy continues to show growth. We believe the first signs of a rotation toward earlier cycle stocks are emerging. We continue to recommend investors maintain portfolios well-balanced between cyclical and defensive issues. However, the continuation of better economic growth is likely to slow the outperformance of the late-stage stocks in coming months as confidence slowly lifts. For year-end, we are targeting an S&P Composite Index level in the 1325-1375 range, up from our1250-1300 target range in 2011.

Weekly wrap and look ahead

All three major indices gained modest ground in last week's trading. The S&P 500 rose 0.9% (year-to-date up 2.5%), the Dow Industrials gained 0.5% (YTD up 1.7%) and the NASDAQ Composite rallied 1.4% (YTD up 4.1%) [Source: FactSet]. Looking at S&P sector performance, five of 10 sectors outperformed the Index while seven of 10 finished the week with gains. The best performing sectors were Materials (up 3.9%), Financials (up 3.1%) and Industrials (up 2.6%). The worst performing sectors were Energy (down 1.2%), Utilities (down 0.4%) and Consumer Staples (down 0.3%) [Source: FactSet]. Market momentum continues to push the major indices higher, but the S&P 500 is approaching technical resistance that could very well limit gains in the near term.

Fourth quarter earnings season kicks off in earnest this week as a large number of companies in the S&P 500 report results and give forward outlooks for 2012. Over the next two weeks, the bulk of companies in the index will report. Our outlook calls for approximately 10% year-over-year growth in the last quarter of 2011. It is likely that earnings for all of last year will post growth in excess of 17% versus 2010, a respectable number in nearly any environment. In terms of major earnings drivers, those sectors most sensitive to the global economic recovery have notched the best growth. We expect that was still the story in the fourth quarter and will likely be the case as well in the first half of 2012.

Last week's economic reports were a mixed bag. On the positive side, consumer credit soared in November, coming in well above estimates. In addition, consumer sentiment from the University of Michigan rose more than the consensus was expecting. Consumers borrowed and used their credit cards at a faster pace than most economists were expecting. The consensus was looking for consumer credit to expand by $7 billion, but the actual increase was $20.3 billion. This additional credit demand certainly helps the economy in the near term, but we do not think this is the start of a new trend. While the labor market has slightly improved, high unemployment should keep a lid on consumer spending in the months ahead. Consumer sentiment was better coming into the year but is still in territory normally associated with recessions. We look for sentiment to gradually improve as we move through 2012. The Fed also released its "Beige Book" survey of the 12 Fed districts. Most of these regions are reporting modest growth, an improvement since the last survey. Looking ahead, we suspect these surveys will use the term "modest" many times this year when describing economic activity in the various regions.

Not all of last week's economic news was good. Coming into the holiday shopping season, we thought retail sales in December would reflect some of the pent-up demand that has built up over the last several years. Instead, "core" retail sales, which exclude gasoline, autos and buidling materials, actually fell 0.1% last month. That means consumer's appetites for discretionary items was weaker than we expected. The holiday shopping season started off with a bang but did not end that way. Retailers were marking prices down aggressively to lure shoppers into their stores. Other disappointing news came from Thursday's initial jobless claims report. New filings for jobless benefits rose 399,000 versus expectations for a 380,000 increase. Anything at or above 400,000 is considered detrimental to labor market recovery. It would not surprise us to see higher initial claims numbers over the next few weeks as temporary workers are let go after the holiday season.

This week's calendar features reports covering regional manufacturing activity, inflation at both the wholesale and consumer levels, and industrial

Equity Strategy (continued)

production and housing. Investors will be balancing the news coming out of the U.S. with European headlines and an avalanche of earnings reports. While any of these items have the potential to move the markets, surprise headlines coming out of Europe potentially pack the most punch. However, last week's S&P downgrade of nine countries using the euro did little to rattle the markets. The reason? We believe investors expected these downgrades by Standard & Poors. In addition, when S&P downgraded U.S. debt last year, the markets barely paid notice. Note that France was downgraded but Germany was not. Once again, S&P has been hinting for months that there would be debt downgrades in the Euro zone. France was not a surprise. It is worth mentioning that the two other major ratings agencies (Moody's and Fitch) left their ratings unchanged.

Inflation reports due this week will likely show that price pressures have slowed. Headline and core readings for both PPI (Producer Price Index) and CPI (Consumer Price Index) are expected to rise just 0.1% across the board. We continue to see easing inflationary pressures in coming months. High unemployment in the developed nations and slowing emerging economies are likely to pressure commodity prices. While inflation will probably increase in coming years, in the near term, we are not looking for any meaningful upside surge.

We do not think the stock market will trade sustainably higher over the next few months. Our work suggests this year's gains will mostly come in the second half of the year. At this time, we recommend that investors keep a more balanced portfolio allocation in terms of the 10 sectors. Our year-end target range for the S&P 500 is 1325-1375.

Following is a summary table that shows the actual current market weightings of each of the S&P groups and our Equity Strategy guidance for portfolios. Of course, each individual's situation is different, and you should consult your financial advisor for specific guidance. Wells Fargo Advisors (WFA) percent weighting recommendations are based on a 25-stock portfolio where each position is 4% of the total portfolio.

Past performance is not an indication of future results. An index is not managed and is unavailable for direct investment. There is no assurance that any of the target prices mentioned will be attained. Any market prices are only indications of market values and are subject to change.

Wells Fargo Advisors
Sector Weighting Recommendations / S&P 500 EPS Estimates / S&P 500 Target:

Sector	S&P Weighting*	Wells Fargo Advisors Guidance	
Industrials	11.0%	Overweight	12.0%
Materials	3.7%	Overweight	4.0%
Telecom Services	2.8%	Overweight	5.5%
Utilities	3.7%	Overweight	7.0%
Consumer Discretionary	10.8%	Evenweight	11.0%
Energy	12.0%	Evenweight	12.0%
Consumer Staples	11.1%	Underweight	9.5%
Financials	14.1%	Underweight	11.0%
Health Care	11.8%	Underweight	10.8%
Information Technology	19.0%	Underweight	17.2%
S&P 500 Earnings Estimate for 2012:			$103.00
S&P 500 Year-End 2012 target:			1325-1375

Sources: Bloomberg, Wells Fargo Advisors
**Sector Weightings May Not Add To 100% Due To Rounding*
Pricing: based on January 13, 2012 close

Stuart T. Freeman, CFA, Chief Equity Strategist
Scott L. Wren, Senior Equity Strategist

Market Analysis

America is still considered the global safe haven

Last week's S&P 500 Index: +0.9%

Market volatility since the financial crisis began in 2008 has been extreme. In the initial stages of the turmoil, equity markets in the United States seemed to bear the brunt of the selling pressure as our housing market collapse sparked fears that the domestic financial system was on the verge of falling off a cliff. The Federal Reserve and U.S. Treasury stepped into the fray to provide liquidity to banks and other financial institutions that ultimately prevented, in this analyst's opinion, an even more dire outcome and, possibly, a depression. The rest of the world soon felt the fallout from the crisis in the United States.

Historically, the world has relied on the United States to pull the global economy out of any slowdown or recessionary period. Foreign governments and their central banks knew they could count on American consumers' buying power to come to the rescue and satisfy their pent-up desire to purchase goods of all kinds; many of which were imported from other countries. Today, the United States still has the world's largest economy, by far, and is responsible for more than 20% of global gross domestic product (GDP).

Another important part of this leadership role is having a currency that is considered the global "reserve currency." All central banks hold significant dollar-denominated reserves. Global trade is most often transacted using the U.S. dollar. Commodity prices, such as gold and oil, are quoted in terms of the dollar no matter where they are bought or sold. In addition, the market for U.S. Treasury bonds, notes and bills is currently the deepest and most liquid of any debt market on the planet. Various debt instruments and loan products around the globe are tied to the 10-year U.S. Treasury note's yield.

While many have predicted the demise of the United States as the preeminent global superpower and financial driver of the world economy, when it comes to periods of uncertainty and tension, investors tend to flock to the U.S. dollar and Treasury securities. Even though the collapse of the U.S. housing market set the stage for a severe recession in many parts of the globe, the dollar has gained strength against the euro and the dollar index (made up of a basket of our major trading partners' currencies) is higher now than during the depths of the financial crisis. The yield on the 10-year Treasury note has fallen from over 4% in early 2008 to less than 2% today as investors have scrambled to park money into perceived safe assets.

Based on economic performance over the last three to six months, it appears the United States will be the lead horse pulling the global economic cart forward in this recovery as well. While domestic economic growth this year will likely come in well below the longer-term average, our economy is doing well relative to many of our major trading partners. This is not news to global investors, who have been buying U.S. Treasuries. We do not look for this attitude to change any time soon. America is still considered the global safe haven.

Scott Wren, Senior Equity Strategist

Fixed Income Strategy

Treasuries, an expensive asset class

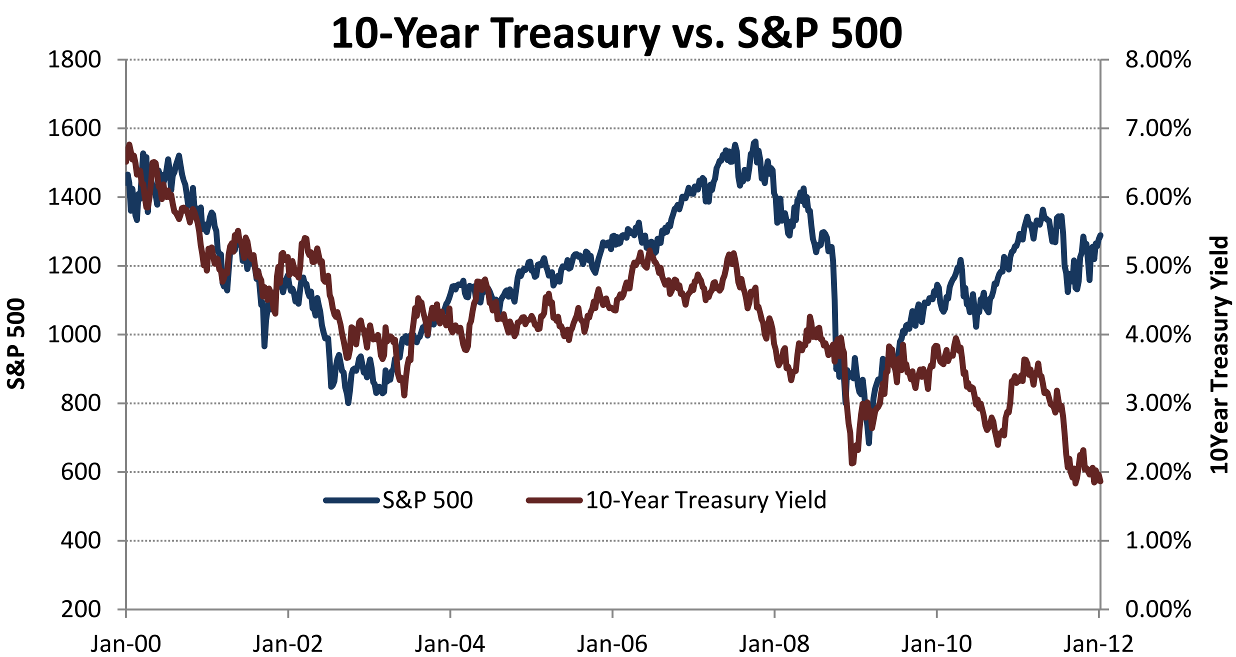
In this week's Fixed Income Weekly, we make the case that current Treasury rates do not foreshadow another deep equity market decline. Rather, we suggest investors, given their experiences in the 2008-2009 financial crisis and their desire to avoid a repeat performance, continue to prefer the perceived safety of U.S. Treasuries over equity securities and are willing to pay up to try and defend against a worst case scenario.

While the interconnectedness in the financial markets is constantly in a state of flux, one could generally count on stocks and bonds moving in opposite directions, at least during the last decade. In early 2008, in what turned out to be the beginning stages of the great recession and financial crisis, the S&P 500 was near the 1400 level during the same time 10-year Treasuries yields began moving lower (prices higher) and quickly pierced the 3.50% level. In retrospect, it was clear that the bond market of early 2008 was a better predictor of future economic conditions than the equity market of 2008. In the graph below, you can see that since the stock markets bottomed in early 2009, equity investors have seen strong returns.

The graph also shows that over the last two years, yields have actually moved lower while equity prices moved higher. While this is a rather simplistic analysis, it begs the question, "Does the bond market see something that the equity market does not?"

What does yield represent?

The 10-year Treasury yield is an often quoted benchmark rate and reflects a number of variables. Investors may be willing to accept lower yields due to increased liquidity needs, lack of alternative investment choices, lower perceived risk than other investment choices or various other reasons. But historically, the biggest factor in 10-year Treasury yields is inflation expectations. Inflation expectations should concern every fixed income investor because inflation decreases the purchasing power of your fixed income investment.



While stocks generally have a greater potential return than government bonds and treasury bills, they involve a higher degree of risk. Government bonds and treasury bills, unlike stocks, are guaranteed as to payment of principal and interest by the U.S. Government if held to maturity. Although treasuries are considered free from credit risk they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate inversely to a change in interest rates.

Source: Bloomberg

Fixed Income Strategy (continued)

"Would you require a higher yield on your Treasury securities if you believed that the income they produce would purchase less in the future?"

Investors purchasing and holding longer-dated Treasury securities at today's historically low rates will be locked into those fixed-income streams for a significant period of time. Even though there is very little credit risk (the risk that the U.S. government will default) in Treasury obligations, the inflation expected over that same time period will diminish the future value of your investment. Wells Fargo Advisors anticipates that inflation will average 3.00% over the next 10-15 years. If this inflation expectation is realized, any long-term Treasury purchase made at today's market rates and held to maturity will result in a loss of purchasing power and a negative return after inflation is factored in.

The only way that an investor purchasing and holding Treasury securities at current market values can expect the investment to hold its value or result in a positive return after inflation is if we experience a prolonged period of extremely low inflation or deflation. While this type of scenario is a possibility given the deleveraging that is occurring around the world, the Bernanke-led Federal Reserve appears steadfast in avoiding this outcome at any cost, evident by the multiple rounds of quantitative easing already implemented.

Treasuries, an expensive substitute

"With the likelihood of a negative real return for new holders of Treasury securities, why do they remain in strong demand from investors?"

European debt concerns are well documented and discussed in the financial press daily. The risks in Europe were further highlighted by the recent downgrades of several European sovereigns, coupled with continued uncertainty on the ultimate resolution of the Greek debt crisis. With 2008 still fresh in most investor's minds, the continued European uncertainty reinforces a strong desire to avoid a 2008 portfolio repeat at any cost. Investors are willing to pay almost any cost to help preserve their portfolios. Over the past several years, the one asset class that has proven to do well during times of crisis is the U.S. Treasury security; the longer the maturity the better.

Treasuries will likely remain the risk-off investment of choice over the near term given the lack of compelling alternatives. We currently recommend that investors hold 25% of a traditional fixed income portfolio in Treasury securities. Our recommendation is an **underweight** relative to the common fixed-income benchmarks that generally have more than a third of their allocation in Treasury securities. We think that the current premium placed on Treasuries makes for a very expensive risk-off premium. Still, for all but the most aggressive investors, it is not recommended that you avoid the asset class, given the recent strong relative performance during times of stress.

While Treasury securities have performed admirably in the past during times of stress, given today's historically low interest-rate environment and the well documented debt and deficit issues in the United States, there is no guarantee that the interconnectedness will remain during times of future crisis.

Higher rates still more likely than lower rates

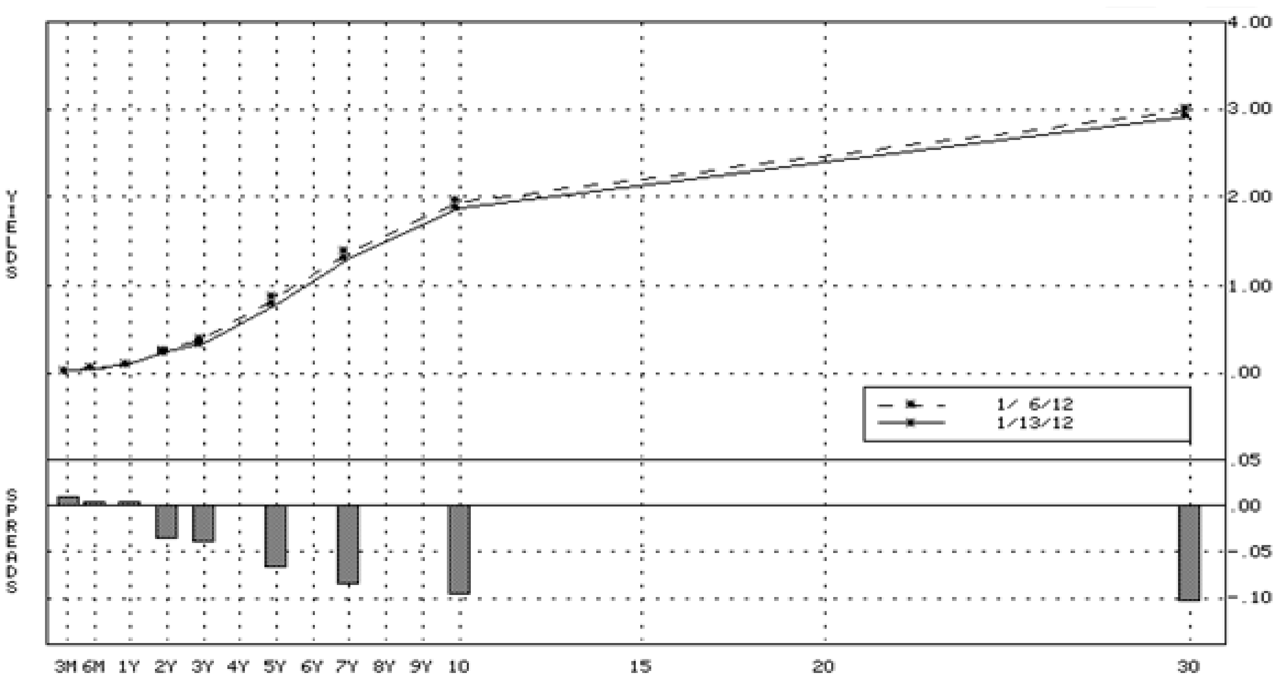
Over time, we expect that Europe will find solutions to its problems; downgrades and crisis headlines will fade from the front pages. We expect that the economy and employment picture in the United States will gradually improve. These events should reduce the price investors are willing to pay for Treasury securities and lead to gradually higher rates and lower prices.

The risk of European debt contagion next year remains heightened. The U.S. Treasury is still perceived as a safe-haven instrument and would likely see further gains if European debt concerns increase. Looking past 2012, the debt issue currently wreaking havoc in Europe has the potential to impact the United States if investors act on concerns over the growing U.S. government debt load. Political differences in the United States pose ongoing risks to the fixed-income market, and we believe, we are unlikely to see a substantial long-term U.S. debt solution before the 2012 presidential and congressional elections. In our opinion, a better option for investors concerned about global uncertainty is to diversify fixed-income holdings, allocating positions both outside of the United States and in currencies other than the dollar to be better prepared for any future market issues. Financial relationships change and while Treasuries are clearly the choice of today for investors looking to decrease risk, tomorrow may bring new investing challenges. Today's choice could be tomorrow's concern.

Brian Rehling, CFA; Chief Fixed Income Strategist

Fixed Income Strategy (continued)

U.S. Treasury Yield Curve January 6, 2012 - January 13, 2012



Source: Bloomberg
Past performance is not a guarantee of future results

Cross Sector Interest Rates – January 17, 20121

	U.S. Treasury Yield	Agency Yield	Agency Spreads*	Corporate A Rated Yield	Corporate A Rated Spreads*	Municipal AAA Yield	Muni AAA Yield % of Treasury
1-Yr	0.10	0.18	0.08	1.29	1.19	0.19	190.0%
2-Yr	0.22	0.36	0.14	1.59	1.37	0.36	163.6%
5-Yr	0.80	1.24	0.44	2.63	1.83	0.89	111.3%
10-Yr	1.88	2.62	0.74	3.98	2.10	1.98	105.3%
30-Yr	2.92	4.86	1.94	4.86	1.94	3.64	124.7%

*Source: Bloomberg   * Spreads versus comparable maturity U.S. Treasury*
Past performance is not a guarantee of future results

The figures above represent past performance, which is not an indication of future results. These figures do not represent specific investments. Bond quotations may not be representative of the bonds offered by Wells Fargo Advisors or held in its inventory. The yields and rates presented here are the typical average of those available for each type of investment as of dates listed. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline of the value of your investment.

Fixed Income Strategy (continued)

Fixed income sector recommendations based on maturity preference

	--------------------------------------Maturity-----------------------		
	Short (1-5 yrs)	**Intermediate (5-12 years)**	**Long (12+ years)**
Sector			
U.S. Treasuries	Underweight	Underweight	Underweight
Agencies – Non Call	Underweight	Underweight	Underweight
Corporate Bonds	Overweight	Overweight	Evenweight
Municipal Bonds	Overweight	Overweight	Evenweight

U.S. Treasuries are guaranteed by the full faith and credit of the U.S. Government for the timely payment of interest and principal if only held to maturity.

Important Disclaimers

- Past performance is not an indication of future results.
- High-yield bonds, also known as junk bonds, are subject to greater risk of loss of principal and interest, including default risk, than higher-rated bonds.
- Technology and Internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.
- The prices of small company stocks are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product diversification and competitive strengths to endure adverse economic conditions.
- Although Treasuries are considered free from credit risk, they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate, and deflation risk, which may cause the principal to decline and the securities to underperform traditional Treasury securities.
- Technical analysis is based on the study of historical price movements and past trend patterns. There is no assurance that these movements or trends can or will be duplicated in the future.
- There is no assurance that any of the target prices mentioned will be attained.

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