

January 2012

Throughout the year markets battled numerous crises. Investors sought safety when confronted with the Japanese earthquake, European debt, and the credit downgrade of the US Government. Market returns in 2011 were mixed in spite of these problems and the resulting near record stock market volatility.

Large US stocks led all equity markets with the S&P 500 Index returning 2.1%. Small stocks dropped 4.2% and International stocks were down 12.1%. Commodities were down 13.3%, while bonds were up 7.8% as interest rates dropped to all time lows.

2011 was a difficult market for active investors who were not rewarded for efforts to find value in small and international stocks.

Our fixed income portfolios are invested in short term, high quality bonds and bond funds. This position hurt relative performance in 2011 as interest rates fell from already low levels moving bond prices higher. Our fixed income holdings are positioned to take advantage of the higher interest rates we believe are inevitably coming.

Our portfolios benefited from some allocation decisions during the year. Our rebalancing discipline led us to sell stocks in the spring when they were above our target allocation and repurchase stocks in September when they fell below our target. We believe that over time this process of rebalancing will contribute to performance and mitigate risk.

We remain confident that your portfolios are positioned properly for the long term. Companies seem attractively priced and poised for solid returns in the years ahead. Bonds appear to us to be overvalued. We continue to monitor your overall portfolio allocation, and each individual holding, and will make adjustments as needed in 2012.

Thank you for your continued trust and confidence as we continue to grind through these very difficult markets. As always, we are here to help with questions or concerns.

This update has been prepared to provide you with a broad overview of our current philosophy and assist with your investment planning, evaluation and is for information purposes only. If there are any questions arising from this letter, you should contact us for a discussion. Past performance is no guarantee of future results, and there is no guarantee any forward looking statements will be attained.