February 2012

Dear Client,

Enclosed are the 2011 return calculations for your account(s). Where applicable, three, five, ten year and returns since inception are included as well.

The S&P 500 returned 2.14% including dividends for 2011. Our composite returned 2.50% for 2011 (individual results may vary). Since inception on 01/01/2000, our composite has returned 112.56% vs. 6.79% for the S&P 500 with dividends. That represents an annual compound rate of 6.43% for the composite vs. .55% for the S&P 500 with dividends.

News headlines last year continued to be dominated by the sovereign debt crisis in Europe. The primary reason for the out-sized attention being given to the fiscal woes of a comparatively small country like Greece is the potential contagion effects on other similarly indebted Euro member countries. Collectively, these countries carry the inspired acronym “PIGS” for Portugal, Ireland Greece and Spain (Italy may now be added/substituted for Ireland). While they all share a common currency, the Euro, their fiscal and economic policies have been very different. Like members of family, some have been profligate, while others have been more prudent. Up until recently, none of this made any difference as sovereign yields on all Euro member countries were relatively similar. Furthermore, European banks, often with the encouragement of their governments and regulators, treated all European sovereign debt issued by member states pretty much the same. These banks now have hundreds of billions of sovereign debt on their balance sheets with large doubts about the ability of the underlying issuers to service or repay the debt. As we are witnessing in Greece, the process for sorting this all out is proving messy. One outcome is obvious: some or all constituent groups, whether they are bond-holders, pensioners or government workers, will receive substantially less than promised. The money is simply not available to fund the level of promises made.

Against this back-drop, equity prices fluctuated from +9% to -14% in 2011. We had raised some cash by selling fully-priced securities early last year and used the cash to purchase securities during the mid-year swoon. Most portfolios now own meaningful positions in a variety of large cap, multi-national companies. Recent additions include PepsiCo and Procter & Gamble. These new names complement existing, and still reasonably priced holdings such as YUM Brands, Coca Cola, Diageo PLC and Nestle S.A. We view these companies as an attractive way to participate in the growth of the middle class in the developing economies.

Other securities where we took meaningful stakes were Genworth Financial (equity & debt), Bank of New York, Republic Services and BP PLC. Although the aforementioned companies are in vastly different industries, the share price of each was impacted by a series of negative, business-related headlines, all of them likely temporary and none fatal from a business perspective. We expect -and in some cases already have- to enjoy meaningful price appreciation as the temporary problems are resolved or recede into the background.

In managing portfolios, our preference is buy good businesses at reasonable prices. We do, however, at times buy shares (or debt) in businesses where the economics are less than wonderful ***if*** the purchase price and total return potential is so compelling that it overcomes the challenging nature of the company's business. The challenges may be the result of a cyclical down-turn, an under-performing division, or some event that causes the entire company to be worth less than the sum of the parts or what a potential acquirer would be willing to pay for the company. These types of security positions are typically smaller (as a percentage of the portfolio) and are generally sold as the position appreciates towards calculated fair value.

While the domestic recovery has been tepid and a slowdown seems likely in Europe, we are relatively sanguine with respect to the prospects for the securities in our managed portfolios. As a group, they represent good value and appear much more attractive than other investment alternatives. We warned last year about the dangers of investing in the extremely low yields on U.S. treasury securities and yields have continued to decline. Yields on T-Bills are microscopic, and the 30 year Treasury bond has, on several occasions, fallen below three percent. We would continue to avoid them as investments. They generally yield less than inflation and after taxes are an investment almost guaranteed to result in a loss of purchasing power over time. As a temporary "parking place" for money they remain suitable primarily due to their liquidity.

Please feel free to contact us with any question or comments. As always, we thank you for your trust and patience.

Very truly yours,

Eckart A. Weeck
Senior Managing Director