

### Third Quarter 2011

<b>Market Summary</b>							
Market Index Beginning of Year Yield	12/31/10	9/30/11		High Point		Low Point	
	\$	\$	% Chg	\$	Month	\$	Month
S&P 500 Index Dividend % = 1.8%	1257.6	1131.4	(10.0)	1370.58	May	1101.5	Aug
DJ Corp. Bond Average Interest % = 3.9%	111.12	113.35	2.0	115.9	Aug	108.9	Feb
WI Preferred Stock Index Dividend % = 7.0%	23.40	23.26	(0.6)	24.54	May	21.77	Aug
WI Real Estate Index	257.9	227.6	(11.8)	257.9	Jan	227.6	Aug

*Market Summary: Preferred stocks and corporate bonds have had positive total returns in 2011. Common stocks have given back all gains since September 2010, and U.S. housing prices are near a three-year low.*

### **Corporate Income Investing and Active Equity Trading Have Performed Well During This Wild Year**

While many investors have been whipsawed in 2011, investors with active equity strategies and corporate income investments have navigated the market volatility well. As can be seen below our year-to-date portfolio results, Winans International's portfolios have generally weathered 2011 well.

As stated in my latest Forbes.com article, "Our key stock market indicators turned negative on August 5<sup>th</sup>." As a result, we took timely defensive action within our individual client portfolios by:

1. Increasing cash levels through trimming large individual stock positions and reducing exposure in individual stocks that violated key technical signals such as the 200-day moving average.
2. Reallocating portfolios to corporate income investments such as preferred stocks and corporate bonds. In fact, The YTD total return of the Winans International Preferred Stock Index (WIPSI) is up 5.5%!
3. Using The Winans Long Short Fund (ETFMX) as a hedging vehicle. In fact, the latest performance figures from Morningstar show ETFMX as having the best performing 12-month return of all mutual funds in the "Moderate Allocation" category.

### 2012 & Beyond

Regardless of any intermediate-term market correction, we expect the foreseeable future will resemble the economic challenges of the 1970's. During that time, major stock market averages traded within a well-defined, sideways range and income investments (bonds, preferreds, reits, etc.) offered comparable returns to stocks.

There are several key things to watch:

1. *Housing* – Real estate's falling prices continue to be the elephant in the room in relation to the overall strength of this economic recovery. History tells us that there will not be a long running bull market in the stocks until real estate prices have stabilized.
2. *Inflation* – The fear of the government's monetary stimulus programs creating conditions for future inflation should cause higher price volatility for bonds with maturities exceeding 15 years. Investors should continue to limit fixed-income investments to 10 years and under.
3. *Taxes* – Increases in investment taxes are once again being considered by state and Federal governments.

Our investment strategy continues to be:

Common Stocks: *WHEN* to buy and sell is as important as *WHAT* to buy and sell during these types of market conditions. We believe profitable navigation of these market conditions is possible by using higher levels of investment rotation, holding high levels of cash after significant market advances and/or strategically using hedging vehicles during volatile downturns.

Corporate Bonds: Short to medium term bonds in stable companies are currently yielding 5% - 7% annually. Cautious investors should consider investing a higher portion of their portfolios in the more predictable returns generated by corporate bonds rather than the ongoing volatility of a sideways moving stock market.

Preferred Stocks: We expect preferred stocks to maintain attractive yields, and can be a good addition for up to a 25% allocation in an income portfolio.

#### News

- **Tax Loss Selling** - In order to reduce our clients' capital gains tax burden for 2011, we will consider selling investments with losses and buying them back at a later date (if we think they will perform well in the long term.). Please notify us of capital gains outside of your WI portfolio, so that we can incorporate these into our investment plans.
- **Client Emails** – In an effort to communicate more effectively with our clients, we have been sending out monthly emails. If you have not been getting these reports, please email me [ken@winansintl.com](mailto:ken@winansintl.com).
- **Portfolio Overview Improvements** – Last quarter we added a *Projected Income* section to our quarterly report. This will give our clients the ability to estimate their monthly investment income over the next twelve months.

The primary job of an investment manager is to balance the external risks and rewards of investing with each client's expectations and situation. I feel we executed our duties well, but if you feel that your portfolio did not live up to your expectations, please call us for a review. Communication is absolutely critical when it comes to investing. If we haven't spoken in the last six months, please call Liz at your earliest convenience to make an appointment for a phone meeting.

Sincerely,



**Kenneth G. Winans, CMT, MBA**