Geoffrey Lenk 508-428-1645

LENK LADNER
Investment Solutions

John Ladner 508-420-1684

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Dow Jones Industrial Avg. **10,913.38** **Standard and Poor's 500** **1131.42** 2011(YTD) -5.7% 3rd Qtr. -12.1% 2011(YTD) -10.0% 3rd Qtr. -14.3%

"I measure what's going on, and I adapt to it. I try to get my ego out of the way. The market is smarter than I am, so I bend." Martin Zweig

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Overview- The Quick Flip – In Wall Street parlance, the quick flip has normally referred to the practice of buying and selling the same security in rapid succession with the intention of garnering a quick profit. In this instance, the quick flip is referring to the rapid change of direction in the stock market from capitulation to unbridled optimism in less than three months time. Starting in late July, the Dow Jones Industrials plummeted more than 2000 points or nearly 20 percent in less than three weeks as investors panicked and fled the market. A bear market seemed a certainty. There were three good reasons for their panic: first, the fear Congress would not agree to the President's budget proposals, which could lead to a default on the country's debt; second, a downgrade of the United States' AAA credit rating by Standard and Poor's; and third, the stark possibility of an unraveling of the Euro zone due to the inability of the weaker members, as best represented by Greece, to adopt the drastic spending reductions needed. As the world's financial system stumbled toward collapse, the urgent need to resolve each of these crises gradually abated even though none of the issues were resolved. Surprisingly, market psychology pivoted and quickly reversed direction to the surprise and consternation of many market participants. Investors' initial reaction was one of disbelief. They found themselves locked into a "risk-off" position, when they should have been making a gradual shift to "risk-on." The sell-off created many attractive opportunities, yet the pervasive fear of loss drove most investors to the sidelines.

Although opportunities of this magnitude are rare, the lesson is simple but clear. The greatest and easiest gains are made possible when widespread fear prevails. When optimism is high and the stock market is soaring, the hope for quick gains begins to reassert itself. As the stock market advance becomes evident, many traders enter the fray hoping the positive momentum will push stocks even higher. This provides a good opportunity to capture some gains. In either case, the proper course of action is to resist the pull of momentum and adopt a contrary stance. As Warren Buffet is often quoted, "Be fearful when everyone is greedy, and be greedy when everyone is fearful." Another way of stating it is the crowd is always late, so avoid being drawn into the crowd. This illustrates the folly of yielding to human emotions when deliberate reasoning is required. The speed of dissemination of information is a key contributor to the increased volatility of stock prices, and the continuous flow of information encourages superfluous trades. As a consequence, a "buy-and-hold" strategy can feel outmoded unless it is supplemented with opportunistic buying and selling when momentum becomes extended in either direction.

One way to resist the strong pull of fear and greed is to adhere to an investment discipline. A number of years ago, I had the opportunity to participate in a golf outing at the Myopia Hunt Club in Hamilton, Massachusetts. It is a tony setting, to be sure. In addition to a wonderful golf course with two of the country's top 100 signature holes, it has the oldest continually running polo field in the nation. Yet what I remembered most vividly was the name – Myopia Hunt Club. To me, the name captures the essence of investing. My dictionary defines "myopia" as the lack of foresight or discernment, and "hunt" as to seek or search. Each investor reacts differently to this emotional tug-of-war. Will reason or emotion prevail in the decision-making? Finding the right answer for each individual requires an examination of their motives

(the “hunt”). To assure rational decisions are made, each investor should strive to establish guidelines based on his or her situation. Here are some examples. What are your investment objectives? What is your time frame? How much risk can you tolerate? (Be truthful.) Based on these and other more definitive guidelines, parameters for action are set. The true test is, “Are you prepared to abide by your own rules?” By accepting the direction provided by this disciplined approach, an investor is better able to resist misguided emotional impulses.

Protection against the potential damage resulting from current price instability can be achieved through diversification. Investors are becoming more receptive to owning a broader range of asset types. In the not-so-distant past, a basic portfolio consisted of equities, bonds, and a money market fund. Now portfolios may include real estate investment trusts (REITs); master limited partnerships (MLPs); exchange-traded funds (ETFs); commodities; precious metals; and perhaps a hedge fund. By expanding the list of asset classes an investor is willing to hold, a manager is able to reduce risk, increase growth potential, and simultaneously increase income. The investor is no longer at the mercy of the stock market alone.

This discussion outlines some of the reasons it may be desirable for an individual or an organization to seek the advice and counsel of an advisor. Recent market volatility has exposed the pitfalls of allowing emotions to dictate investment decisions. There is little reason to expect volatility to lessen in view of the spreading economic strains in the Euro zone; the approaching Presidential contest here in the U.S.; and our economy, which continues its wobbly ways. In sum, the rapidity of change resulting from the 24/7 news flow suggests even the most astute individual investor can benefit in having a professional with whom to consult.

At Lenk Ladner, our hallmark is a fundamental, value-oriented approach. We seek financially sound companies with reasonable growth prospects. This style is often referred to as GARP (or growth at a reasonable price.) In addition, management must have demonstrated a sense of responsibility to their shareholders. There are several ways for them to accomplish this, but our preference is with regular dividend payments. Equally important is the maintenance of a strong balance sheet. Two characteristics sought are ample liquidity and reasonable use of leverage. Finally, management must exhibit a clear vision of the future of their business and how they expect to facilitate its growth.

With market direction so uncertain and unpredictable, it is difficult to identify any sector as being particularly attractive at this time. However, as interest rates flirt with the lowest levels in <u>many decades</u>, common stock should be the preference of most investors. Focus first on companies, which can be categorized as “core” holdings – large, high quality stocks paying a regular dividend. As long as one is prepared to ride out any temporary dips, investors can earn as much with dividends as they can from interest payments from bonds. In addition, there is the potential bonus of capital gains. It has become nearly impossible to make the case for money market funds, which yield virtually nothing. Whatever asset classes an investor chooses, she/he must be prepared to alter course if there is a meaningful shift in sentiment.

As the close of 2011 approaches, we offer several reminders or suggestions. We try to balance any capital gains or losses taken in your accounts to lessen your tax liability. You should do the same with assets held elsewhere. You can write-off up to $3,000 of losses against ordinary income as well. Be sure you check with your accountant or tax preparer if you have any questions. Year-end is an ideal time to consider gifting as well, whether it is to members of your family or your favorite charities. When you do make your list of charities try to give some consideration to local charities, which provide for our neighbors in need. Finally, if you are at the point where you must take withdrawals from your IRA, remember you must include in your calculation all of your IRAs, regardless of where they are located. The withdrawal(s) must be made before the end of the year, so do not wait until the last minute. Do not hesitate to call us with any questions.

Geoff, Carie, Connie and I wish you a most happy holiday season. JML