Shorepoint
Capital Partners LLC

Identifying Opportunity.
Navigating Risk.

Newsletter – November 2011

MARKET TRENDS 9/30/2011

	Total Return	
US Stock Markets	**3Q**	**YTD**
S&P 500 Index	-13.9%	-8.7%
S&P MidCap 400 Index	-19.9%	-13.0%
S&P SmallCap 600 Index	-19.8%	-13.8%
Int'l Stock Markets		
EAFE Index	-19.0%	-15.0%
Emerging Mkts Index	-22.6%	-21.9%
Fixed Income		
Barclays Intermediate Gov't/Credit Bond Index	2.4%	4.9%
Barclays Capital Muni Bond 3 Year Index	1.0%	3.1%
Commodities		
SPDR Gold Shares (NAV)	7.5%	14.5%
Goldman Sachs Commodities	-11.7%	-9.3%
Real Estate		
Dow Jones US REIT Index	-15.3%	-6.8%

Sources: Total Returns from WSJ Market Data Group, Standard & Poor's, Barclays

European Sovereign Debt Issues Overwhelm Everything!

MARKET RECAP

In the third quarter, the equity markets exhibited extreme volatility comparable to the 2008/2009 period. The volatility sprang from renewed worries of the Greece sovereign debt crisis spreading throughout the Euro Zone and the feared contagion effect on global markets. The contentious stalemate in Washington DC over raising the debt ceiling further exacerbated market volatility. Global recession fears and weak consumer sentiment were also a major drag on equities. Investors continued to pour money into U.S. Treasuries - driving the 10 year Treasuries below 2% yield - ignoring the Standard and Poor's downgrade of U.S. debt to AA.

Domestic large cap stocks benefited from a flight out of "risky" assets and a strengthening of the U.S. dollar. For the quarter, the S&P 500 Index retreated a painful 14% but less than international developed markets (-19%), emerging markets (-22.6%), domestic small and mid caps (almost -20%). The drop from the April 2011 high was over 20% which is considered a bear market. By the end of the third quarter, major equity indices were all in negative territory on a year-to-date basis.

Bonds continued to defy logic and benefited from investor inflows. Even with the downgrade, U.S. 10 Year Treasuries were up 6.5% and municipals posted a 1% return while international bonds were negatively impacted by the European sovereign debt problems, emerging market inflation fears and a stronger U.S dollar. Commodities were a mixed bag in the quarter with the Goldman Sachs Commodities Index down 12% while gold was up 7.5% - but down substantially from its record high reached in September. REITs' (Dow Jones US Real Estate Index) negative quarterly return of 15.3% wiped out what had been a positive 2011.

A SLOG

It would be difficult to argue that the markets have found their footing, let alone a bottom. One of the many euphemisms about investing is that the market climbs a wall of worry. Well, we have quite a wall.

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"…the slow and cloudy policy responses complicate any resolution and add to market volatility."

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Challenges to Short Term Recovery:

- **Euro Zone Debt Crisis and Uncertain Outcome**: A peripheral nation like Greece's deficit significantly exceeds its Gross Domestic Product. Although Greece is cutting government spending, they still require considerable outside financing. It is not known how this solvency risk will play out nor do we know the impact of contagion on the rest of Europe. Also, European banks stocks are being sold off on worry they are undercapitalized. Europe historically has had strong partnerships with public companies and they will address these issues and provide the necessary financial support to the countries and banks. However, the slow and cloudy policy responses complicate any resolution and add to market volatility.

- **Emerging Markets and China Slowdown**: China and the emerging markets, the last bastions of economic growth, are showing signs of slowing. No one knows the extent of the slowdown or for how long, but in a fearful world, this threat is heightened. However, China is still growing at a rapid pace, over 9%, as are emerging markets which far exceed growth in developed markets.

- **Federal Reserve's Risk of Recession Comments**: Bernanke made clear that the Federal Reserve fears a U.S. recession to a greater degree than previously stated in their last meeting. Their twisting (selling shorter maturities and buying longer maturities) of the yield curve in an attempt to stimulate the economy has resulted in historic low interest rates but has been met with skepticism. Also, one has to question if the slow economic growth is caused by "high" interest rates or by something else- like deleveraging and the resultant dampening of demand.

- **Market Volatility**: the VIX, which measures fear and swings in market prices, has spiked substantially higher. Intense volatility negatively affects how investors feel about investing in equities. An elevated VIX also leads to higher asset class correlations (assets moving in synch), investor fear of losing money and discourages "buyers" which may further exacerbate downturns.

- **Intractable Policy in Washington D.C.**: Gridlock has turned to dysfunction, and people have little confidence that politicians can prepare cogent strategies for the issues we face. With the 2012 Presidential Election on the horizon, the likelihood of a substantive compromise seems remote, but one never knows.

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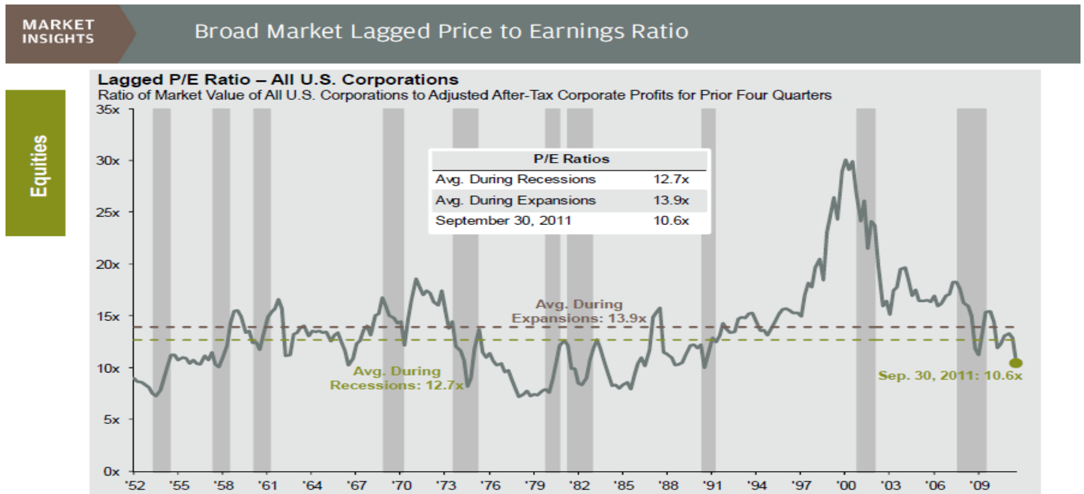
Valuations don't matter in the short term but should longer term!



Source: BEA, Federal Reserve Board, Wilshire Associates, J.P. Morgan Asset Management.

<u>The Contrarian Case for Buying Stocks:</u>

- **<u>Why it's not a repeat of 2008</u>**: Domestic banks are well capitalized and reserved for potential losses. Consumers have reduced their debt load and increased personal savings rates. As for unemployment, the rate is higher and not easy to reduce but weekly claims are creeping lower. Housing continues to be a drag on the economy although the Case-Shiller Home Price Index is showing signs of price stabilization. Other areas of improvement include increases in the manufacturing and service indices, auto sales and a much lower oil price which is positive for consumers.

- **<u>Weak Consumer Sentiment</u>**: Consumer confidence is still very weak and retail investors continue to redeem equity funds in the quarter at close to market lows and are still adding to bond funds at historical low rates. This continues to be an excellent "Contrarian Indicator"- being a disciplined investor, less emotional and moving against the crowded trade has been advantageous.

- **<u>Attractive Equity Valuations</u>**: Stock valuations are close to recession lows of 2008 while companies are generating record profits. Corporations continue to generate strong profits/cash flow and merger & acquisitions are accelerating. The S&P 500 Index is pricing a recession which although possible, we think unlikely. In times of extreme market volatility, valuations do not matter to investors but in the long run, it will! Another positive was that the S&P 500 dividend yield exceeded the 10 Year U.S. Treasury yield for the first time in five decades!

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"We expect stocks to return to their rightful owners- long term, patient investors."

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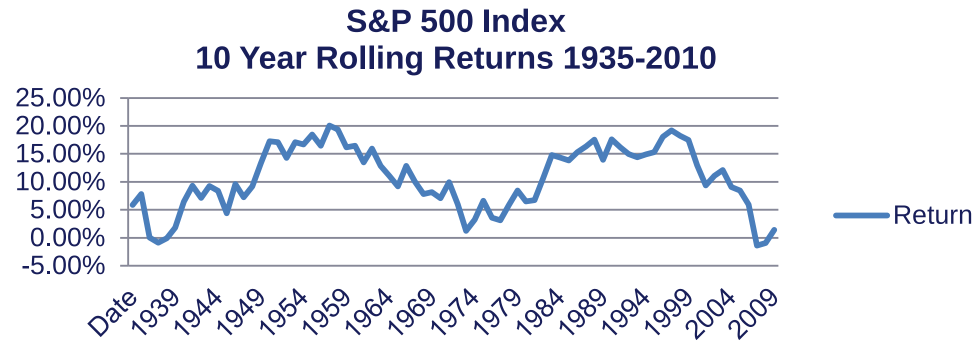
Richard Sylla, an economist at NYU, has studied equity market returns for the last 100 years and concluded that cycles occur in 10 to 15 year periods with these periods producing returns significantly diverse from the historical averages both positively and negatively. As the following charts shows, we may be entering one of the positive periods after a decade plus of terrible returns.



Source: Ibbotson Associates

<u>How is Shorepoint managing your account(s) in this environment</u>?

First and most importantly, we continue to work with you to ensure that your investment strategy and asset allocation are appropriate based on your goals and risk appetite. You may also notice an increased amount of activity in your accounts. The increased volatility has provided an opportunity for us to:

- Perform tax loss selling to minimize realized gains or to realize losses that can be a benefit on your taxes and/or carried forward for future years.
- Further diversify the portfolios to enhance your return/risk profile.
- Upgrade the portfolio with the indiscriminate selling that occurred in the quarter, providing the chance to add attractive securities.
- Continue to focus on high quality, dividend paying stocks with attractive valuation and a strong international business. Also, selectively add attractively valued growth stocks.

We expect the elevated volatility may be with us for a while - with European debt crisis, economic recession fears and the Washington D.C. stalemate and Presidential Election results. Although this will be unsettling, we believe that this will provide us with attractive investment opportunities. This will require a disciplined investment approach, which we provide, but may be stressful for you. One investment key is to balance a long term approach while also acting on short term opportunities driven by irrational dislocations.

We expect stocks to return to their rightful owners- long term, patient investors. Many of these trite sayings remain because there is truth in them - don't sell at a discount - manage through it, buy if you can, though incrementally, carefully, and slowly. As always, we will continue to communicate with you our viewpoint, which will generally be contrarian in nature, and are here to discuss your concerns.