101 South Bay Boulevard, Suite B-4
P.O. Box 818, Anna Maria, FL 34216
941-778-1900 • 800-800-7075
Fax: 941-778-1801 • breitercapital.com

BreiterCapital MANAGEMENT INC.

Investment Strategy

Winter 2012

We hope your holidays were great and we look forward to serving you in 2012. Here's a list of the main topics contained in this letter.

- ✓ **After a strong start to 2011(up about 10%), the U.S. stock market declined almost 20% from the spring peak to the fall lows. When all was said and done 2011 turned out to be a flat year for equities here in the States, but it was quite a ride in the late summer with some measures of volatility setting records.**

- ✓ **International equities didn't fare nearly as well. A perfect storm of the devastating Japanese earthquake & tsunami, and the fiscal woes in the Eurozone combined to cause the MSCI EAFE Index of international stock markets to decline 12% in 2011 and the emerging markets index was down more than 18%.**

- ✓ **As you might suspect, high quality and government bonds did quite well in 2011 (with the exception of bonds in the aforementioned Euro Currency Zone). High Yield bonds which are more highly correlated with equities experienced significant price ups and downs during the year, but ended up with flat performance by year's end.**

- ✓ **Breiter Capital Management's risk control efforts based on our system of quantitative signals helped to reduce volatility, but came at a cost of reduced performance when several sell and buy signals were quickly reversed due to the extreme late summer and early fall volatility.**

- ✓ **Review of current Risk Control Model status and portfolio allocation.**

Before delving into the topics listed above, please allow me to cover some normal beginning of year disclosure requirements and other housekeeping items.

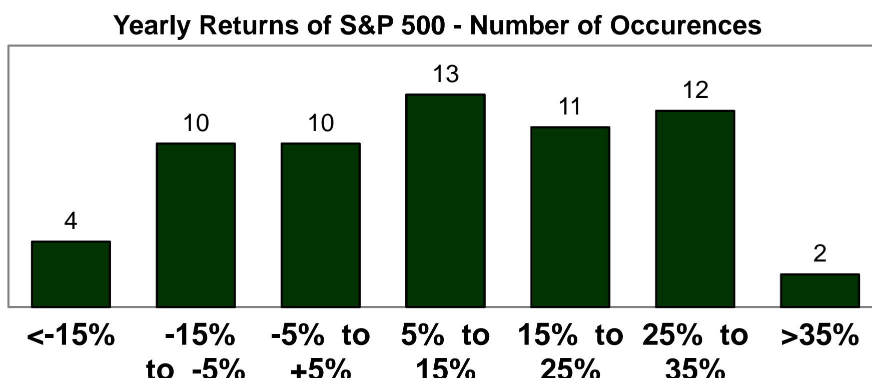
First, our annual delivery of our Privacy Notice is being fulfilled by posting it to your personal Client View portal site if you previously granted us permission to deliver required documents via electronic means. If you did not grant us that permission, your Privacy Notice is enclosed.

We are required to offer a current copy of our Form ADV Part II A&B each year. This document details the nature of Breiter Capital's business as investment advisers and how we work with our clients. You were provided a copy of this last year if you were already a client, and new clients were provided one when they formed a relationship with us. If you would like a copy sent to you at this time, or any time in the future, just call Andria Ludlum at 941-778-1900, or email your request to **andria@breitercapital.com**. Both the privacy notice and Form ADV Part II A&B are posted on our main website (**www.breitercapital.com**) at all times in the Disclosures Section.

Performance reports have been posted to each client's Client View Portal or mailed to you if that is your indicated preference. If you would like to discuss the portfolio results or the plan we have in place for you, please call to set a time to do so. In fact, this is a great time to communicate with us regarding any changes that have, or will be occurring in your financial life, so please don't hesitate to call.

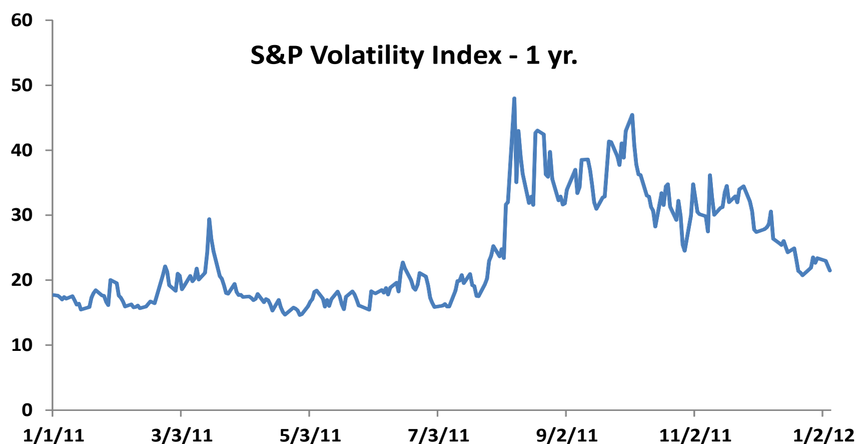
Domestic Equities

The U.S. stock market was essentially flat for 2011, making it a slightly below average performance compared to the average of the last 62 years. The chart below is one of my favorites and we usually share it with you at the beginning of each year. It shows the number of times the market's yearly performance falls into bands around what is typically promoted as the "normal market return" of 10%. So, a year falling between 5% and 15% would be about normal, and any result, positive or negative, outside of that band would be "abnormal".



The take-away from viewing this chart, in my opinion, is that the markets return of about 10% on an average annual basis over time is the result of, more often than not, years that fall outside the normal expectation. The "abnormal" years are far more common than our perception of "normal", and perhaps we should expect abnormal results in the short-run as we work toward achieving our longer-term investment targets.

2011 will be remembered for some extreme volatility in stock prices from late July through October. As the weekly news flow out of Europe was alternating between positive and negative, the markets response was correspondingly up or down in a big way. I believe it was the second week of August where on four trading days from Monday through Thursday the Dow Industrial Average moved up, down, up, down with each day exceeding a 4% move! Conditions have calmed considerably since as indicated by this chart of the S&P 500 Index Volatility Index.



Historically speaking, peaks in volatility that reach a level of 44 or greater tend to occur near market bottoms, and with patience, investors have been rewarded with higher prices a year or so later. We are encouraged that the pattern of falling volatility after reaching a significant peak in August and September is mimicking past corrections and subsequent recoveries, at least so far.

International Equities

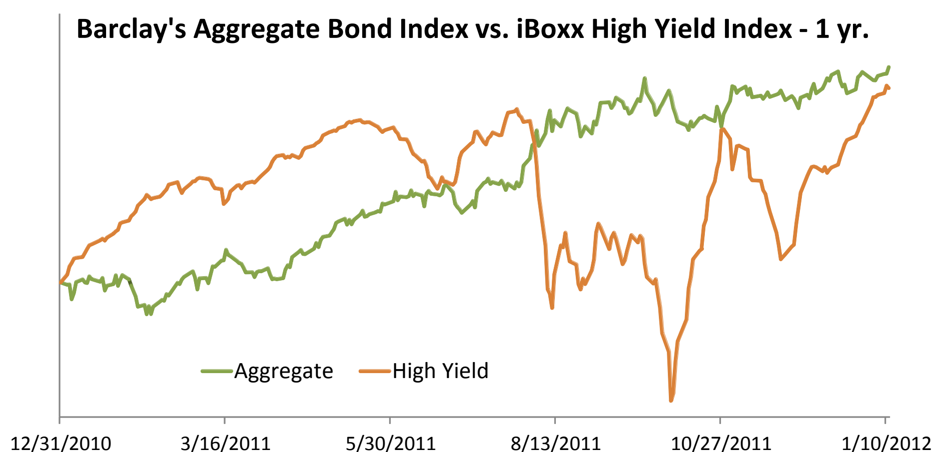
The combination of the Japanese earthquake and resulting tsunami in March, followed by the Euro Currency Zone fiscal woes which became evident in the summer, conspired to cause international equities to under-perform U.S. equities by a wide margin in 2011.

Most of our portfolios contain some international equity exposure at all times, but we minimized it throughout 2011. Perhaps our best move was selling the emerging markets segment last January, avoiding the 18% decline in the emerging markets indices last year. You may recall that one year ago, many advisors and brokerage firms were touting the emerging markets as the best place to invest. We were concerned about the "popularity" factor which is usually a sign of a trend about to end, and our rules based system indicated this market segment should no longer be held.

Looking forward, there may be some great opportunity in the depressed prices for international equities, and emerging markets in particular. But we will be patient until our models pick up on some signs of recovery before increasing exposure to this area.

Fixed Income

High quality bonds, such as U.S. Treasuries, and A-rated corporate bonds rose steadily in price through the year as investors sought safety from the world's economic uncertainty. However, some international bonds and lower quality bonds suffered temporarily as the uncertainties caused investors to question the value of these holdings. By year-end, the high yield bond index recovered to finish with a positive return.



The drop in high yield bond prices during the summer was, a bit unusual for this asset type, and the worst scenario for our trend based system. We have put in place some enhancements to the model for high yield bonds which we believe will make it more effective in the future. We have also re-entered high yield bond positions in our portfolios in recent months.

Risk Control Model

Our research and review of many methods similar to our process shows that quantitative (mechanical) trend-based systems provide signals which are right about 50% of the time, with the other 50% being false signals. The surprising part is that studies show that this 50% batting average definitely reduces risk, and may

increase performance. The premise behind this potential for success is that the signals which turn out to be "wrong" are usually reversed pretty quickly with minimal losses or opportunity cost.

The decisions which turn out to be correct can be followed for quite a while (potentially years) as the major up and down trends unfold over time. Thus, the keys to understanding our process are revealed.

1) Expect some signals which turn out to be wrong.
2) Expect to under-perform during certain periods of time.
3) Stick with a process which provides a strong, disciplined approach to decision making to avoid large mistakes, and the benefits will reveal themselves in time.

In summary, it is a strategy of attempting to win by not losing.

Presently, we have positive indications from the Risk Control Model for Domestic Equities, REIT's, High Quality and High Yield Bonds, as well as the Energy Transportation segment populated by Master Limited Partnerships. Negative indications are being provided for International and Emerging Markets Equities, as well as Commodities.

We are optimistic based on the indicators we follow that 2012 has potential to be a good year for investors. Of course, we don't let yesterday's indicators guide us as the situation evolves and we are watchful for signs of deterioration which indicate a more defensive posture is necessary.

In closing, we've received a lot of positive feedback on the email updates provided every 2 – 3 weeks, a practice we began last summer. We intend on continuing these updates via email and posting to the Client View portal, and hope they remain helpful in keeping you informed on the activity in the financial markets and in your managed account(s).

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