November 8, 2011

Market Data through October 31, 2011

Total Returns:	Month of October	YTD (thru 10/31/11)
❖ S&P 500	10.9%	1.3%
❖ Russell 2000	15.1%	-4.5%
❖ MSCI EAFE Index	9.6%	-6.8%
❖ Emerging Market Index	13.2%	-11.5%
❖ Barclays Bond Aggregate	0.1%	6.8%

October Investment Activity

- Continued to add defensive companies with above average dividends, strong balance sheets and decent growth forecasts.
- Purchased Apple

Apple is one of the most innovative companies in the world with numerous opportunities to further grow its business, especially in Asia. While trading around $400 per share it is not an expensive stock relative to its earnings and growth rate. Typically large companies with Apple's growth and strong brand command much higher valuations relative to earnings. Historically, a growth company's stock price is based on its ability to generate earnings growth. Many companies choose to split their share price when prices rise into the triple digits to make it easier for small investors to own but this exercise has no effect on the company's value. Apple is expected to earn almost $36 per share in 2012 giving it a forward Price to Earnings ratio (PE) of only 11. In other words it is trading at 11 times next year's earnings per share which is extremely undervalued relative to its growth rate and financial strength. The average company in the S&P 500 for instance is trading about 11.8 times next year's earnings estimate yet the average growth rate is much less than Apple's. Thus, from an earnings standpoint we consider Apple as an attractive investment opportunity despite its lofty dollar price of $400 per share.

Things to Consider:

Global risk remains high as Europe continues to address their sovereign debt challenges. This crisis will remain in the headlines for some time to come. Fortunately, the US economic environment points toward weakness but not recession. Most companies have dividend yields significantly greater than yields on the 10 year Treasury note. This is a fairly rare occurrence. We maintain that large companies with stable growth, strong balance sheets and above average dividend yields remain the most promising investment alternative in this atmosphere of extremely low interest rates and tepid economic growth.

Please feel free to call if you'd like to discuss your individual portfolio in greater detail.

Sincerely,
Your ARS Team