

Dear Clients & Friends,

We trust you enjoyed a wonderful summer with family and friends, making memories and enjoying the great outdoors. After growing up in South Africa, and then spending 5 years in Southern California, I've always felt that summers in the Pacific Northwest are some of the best in the world. While we wish we'd had more of the sun, when the days were warm and beautiful, there's no better place to be.

If you were debating whether to even open this package with performance reporting and commentary . . . we understand, as it's been nearly impossible to not be overwhelmed by the constant barrage of negative news.

That 'barrage' includes the on-going European Union (EU) debt crisis, uncertainty over slowing U.S. and Global markets, and a lack of confidence stemming from political gridlock in Washington – the same on-going and seemingly never-ending issues that have haunted the markets for months. *Fundamentals have had little to no impact on the market's performance*, and the last 2 weeks of the quarter produced astounding downward volatility, with everything selling off in dramatic fashion.

We have never seen such a high level of underperformance from some highly regarded veteran money managers as we saw during the third quarter, and year to date.

Many of you were shareholders in Bruce Berkowitz's Fairholme Fund in 2009 and 2010. *Earlier this year, he was honored with Morningstar's "Manager Of The Decade" award with a stellar 10-year track record of significantly outperforming the overall markets.*

During the latter part of 2010, we had concerns with his stock overweighting relative to financials, and ended up soon thereafter selling all shares in the Fairholme Fund. Our concern turned out to be valid, as his fund lost more than 25% during the just completed quarter, and year to date through 9/30, his fund was down more than 32% ! In similar fashion, one of legendary hedge fund manager John Paulson's funds was down nearly 40% thru early September.

While markets here in the US have struggled severely year to date, markets overseas have performed even more poorly.

For many of our clients, we entered this year with a cautious bias, given our view on the economy, and the on-going challenges for the markets, both here and abroad. And until the last two weeks of September, we were on track for one of our best quarters ever . . . until the pronounced sell-off in the equity markets, precious metals and even high yield bond funds, took some of the wind out of our sails.

Nonetheless, our more cautious bias kept many of you from the brunt of the sell-off, but like all investors, we could not escape declines as the S&P 500 posted its *worst quarterly loss since 2008 !*

The returns for the major indices for the quarter ended and YTD were as follows:

INDEX	3rd QTR 2011	YTD 2011
DOW JONES	- 12.1%	- 5.8%
S&P 500	- 14.3%	- 10.0%
Nasdaq	- 12.9%	- 8.9%
Russell 2000 (small cap)	- 22.1%	- 17.8%
MSCI EAFE (Foreign)	- 19.6%	- 17.2%
BarCap (Agg Bonds)	+ 3.8%	+ 6.6%

If there is a benefit for 20 years of studying the market, managing money and coping with the stress that such a noble endeavor brings (not to talk about graying hair – and even the loss of hair☺), it is the fact that one begins to develop an intuitive sense about the market’s behavior, even when the ‘noise’ and ‘pessimism’ can be stifling. This sense may not always be correct in the moment, but more often than not, it holds up over time.

As the quarter ended and we saw the 4th quarter kick off with renewed selling and more declines, I could not help but think of Warren Buffett’s quote when he said:

“Be fearful when others are greedy, and greedy when others are fearful”.

While this statement defines 'going against popular opinion', we cannot help but feel that this statement is worthy of serious consideration right now.

Given our history of living thru the ups and down of the markets, we are acutely aware of the high investor fear factor in today's market environment. It seems eerily similar to October 2008, and in hindsight we all know what an opportunity that turned out to be . .

After a challenging initial start of the fourth quarter, we saw a dramatic turnaround on Tuesday, October 4th, and have now seen the market rally more than 8% over the past 3 trading days. While it's certainly too early to call this the beginning of a sustainable bull run, this three-day run simply highlights the difficulty in trying to time the markets, or determine when to enter or exit the markets.

SO WHAT SUPPORTS OUR BELIEF IN AN IMPROVING MARKET:

- We believe a recession scenario is already priced into stocks
- The U.S. economy appears in better shape than their European counterparts
- Corporations are healthier today, with stronger balance sheets and dramatically higher cash levels than during the credit crisis of 2008
- The S&P 500 is currently valued at less than 11 times expected earnings this year. That's a full 25% below the average level experienced during the last nine recessions over the past 50-plus years. Simply put, stocks are already priced as if a recession were a done deal. (Bloomberg: S&P500 Valuations below Recessions Since '57, 10/3/11)

Earnings season will be kicking off shortly, and this will be a telling indicator of where the markets go from here. Earnings estimates have been pared back in recent weeks, in essence setting the bar rather low. It would not come as a surprise to us if S&P company earnings in general beat their estimates, leading to stocks rallying on the news.

While things are far from settled both politically and economically, we are continuing to focus on those investments where we have a high degree of confidence. Many of you own Apple stock in your portfolios, and we have high expectations of the upcoming global release of the iPhone. The Wells Fargo Advantage Growth is a core Large Company mutual fund holding in many of your portfolios and we are thrilled by its consistent outstanding performance in its peer group and out performance of the overall markets.

Foreign fund holdings have definitely been a drag on overall performance; however, we continue to believe in the long term emerging middle class theme playing out in Asia and South America.

We know that this is an incredibly challenging market environment. We know that the 'can under the mattress' investment appeal can be very tempting during times like these. We also know (to the best of our knowledge) that none of you need to sell any equity positions right now to provide cash flow.

While instant media access is applauded by many, it can have a truly detrimental effect on those who allow it to dictate their investment decisions. We have talked with a number of you about the temptation to follow your investments on a daily basis. While sticking your head in the sand is not an investment strategy, neither is daily, weekly, monthly or even quarterly over-analysis of your account balances. *The daily price gyrations of world-class companies have no long term impact on their ultimate valuation*, as evidenced by Apple recently hitting a low of \$354 to a high of \$380 on the same day – the day they announced their new iPhone roll out.

*Time and ownership of great companies will ALWAYS be
the best strategy for the patient investor.*

Whether the markets move higher this week or this quarter or next year, fundamentals support the case of higher stock prices in the future.

As always we welcome your questions and comments and truly appreciate your confidence and friendship.

We wish you and those dear to you, a wonderful fall, and a very special Thanksgiving and Christmas holiday season.