



STRATEGY UPDATE: MORE OF THE SAME: GOOD NEWS!

BY TEALWOOD'S STRATEGY GROUP

Though it may sound like we are doing this backwards, let us start with our conclusion. We believe:

- The S&P 500 Index will generate a return (within a couple of percentage points) of 15% between now and Halloween of 2012;
- We have the opportunity to do better than the indices via our investment discipline and security selection; and
- This return will compare favorably with other asset classes over the same period, and to be a little simplistic, a little promotional, and episodically accurate, we believe equity investors will **CONTINUE** to win. Over the past one year, two years, and in the recovery (since 12/31/08), the S&P 500 Index has returned 30%, 22% and 18.9% (annualized).

Have we ever gone through such a sustained period of good results and had sentiment stay so negative and risk averse? Counter intuitively, negative and risk averse sentiments are our allies, keeping valuations and opportunities attractive. Now the support, qualifications and explanation for these conclusions:

First, why Halloween 2012 (H12 for shorthand)? Because Election Day 2012 follows the very next week. Note that we are not trying to make a call today about how the financial markets will discount electoral results from this long distance perspective. In any case, we do not see equity valuations falling off a cliff due to politics. Based on history, a likely range of market reactions to the election run from up 26% to down 8% .

The chart below shows the price activity of the S&P 500 Index over the last two years. Scrutiny reveals two features:

- A volatile pattern of two steps forward and one step back; sloppy and choppy is our descriptor du jour, and
- Forward progress! (20+% annualized results).



Source: Bloomberg 7/8/11

(Continued on page 2)

STRATEGY UPDATE *(continued from page 1)*

Question: Are you willing to put up with a winding path, interrupted by irregular detours, to get to productive results?

Looking Ahead: More Complications

Our expectation for this period leading up to H12 is for more of the same. On the one hand, the U.S. economic recovery will continue, albeit modestly. Unemployment and housing will continue to be laggards. Greek bonds will continue to haunt. U.S. fiscal deficits and monetary policy will be an ongoing source of worry. There will be fits of horrible weather, and other natural occurrences, and their consequences to deal with. Solutions and clarity will stay elusive. Just as now, all of these factors will continue to be a drag on valuations and multiples will be historically modest, likely staying in a trading range between 13X and 15X earnings. Let us be clear: we are all paying a valuation tax to these many uncertainties. The market's forward multiple of 13X represents a present value discount of many risk factors. While risk

factors will vary, we expect the valuation tax to linger and assume a meek environment for business appraisals.

Looking Ahead: More Opportunities

On the other hand, profits and productivity continue to grow impressively. The current year is projected to produce all-time record profits for the S&P 500 Index. The digital economy will continue to race ahead. Businesses that are compensated for recurring services will progress apace. Dividends will continue to be a meaningful part of investment returns. Developing markets will expand, niche opportunities will abound.

There is an ongoing tug-of-war between the complicated, unresolved issues and the unrealized opportunities. The result is a discounted multiple on record earnings. For H12 this could resemble a 14X on \$110 in index earnings. This projects to an S&P 500 Index level of 1540, which combined with dividends produces a 15% total return.

(Continued on page 3)



WHO IS YOUR BENEFICIARY?

BY JODI HALBERT, IACCPSM—CHIEF COMPLIANCE OFFICER AND CHIEF OPERATIONS OFFICER

Many of our clients spend hours with an attorney creating a plan to pass on their assets to their heirs. Once this plan is in place, they feel they consider this piece “done.” However, we have found one area that is often overlooked—the ongoing review of named beneficiaries on their IRAs or 401Ks.

Everyone is required to list at least one individual or entity as a beneficiary when opening their account, but many times the beneficiary designations are never reviewed again. Such was the case with one of our clients. He wanted to leave a percentage of his IRA to his university, so he listed it along with his wife as a primary beneficiary. Ten years later, the client named the university again on his trust, forgetting it was also listed on his IRA. When he passed, the university received money from both his trust and his IRA—something he never intended. This significantly changed what was otherwise a carefully laid out financial plan.

At least every five years it is a good policy to review the beneficiaries on your IRA, 401K, life insurance products, or any other asset that has a payable on death (POD) designation. We are happy to help you review beneficiaries and change them as necessary. Please contact your account manager or Michelle Steingas, our Operations Associate, with questions or for assistance.

STRATEGY UPDATE *(continued from page 2)*

Getting Clarity

The only clarity that looks likely over this period is the “rearview mirror” variety that arrives with looking back on realized results. But take this with the perspective gained from knowing that the last two years generated terrific returns and you are hard pressed to extrapolate that success forward from here.

Customize, Customize, Customize

We are not making a “one size fits all” recommendation. Suitability and ease of sleep mean that the equity rollercoaster ride is not for everyone. For those with a timeframe longer than the CNBC broadcast day and at least some tolerance for potholes in the road, we believe patience will continue to be well rewarded.

TEALWOOD TEAM MEMBER UPDATES...



Congratulations to **Bruce Langer** for obtaining the Chartered Investment Counselor (CIC) designation awarded by the Investment Adviser Association. A key requirement of the program is that candidates hold the Chartered Financial Analyst designation. In addition, CIC designation requires candidates to demonstrate significant experience (at least five cumulative years) performing investment counseling and portfolio management responsibilities. Character references and ethics information must also be provided. The continued professional development of our team members is strongly supported. We commend Bruce for his accomplishments.

David Neal has taken on enhanced responsibilities as Chair of our Investment Committee. David also serves on the Value Growth and Large Cap Value portfolio teams. This appointment aligns two of David’s prominent strengths: managing organizational structure and passion for the craftsmanship of investing.



Wendy K. Bennis was recently named Chair of our Client Care business unit. Wendy and the Client Care group will be leading key initiatives to further enhance our commitment to providing best-in-class service to clients and to all of our stakeholders.

Michelle Steingas joins Tealwood as our new Operations Associate. Her responsibilities include new account processing, quarterly reporting, and providing operational support to our account managers. If you have questions or need assistance, Michelle is an excellent resource. And you are sure to appreciate her pleasant demeanor and efficiency. You can view Michelle’s complete bio on our website: www.tealwood.com. Please join us in welcoming Michelle!



TEALWOOD EVENTS

TEALWOOD ANNUAL CONFERENCE PREVIEW

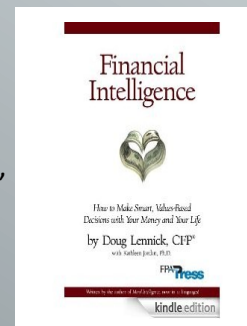
You're Invited! Another great Tealwood event...

SAVE THE DATE: Tuesday, September 27, 2011 4:00—5:30p
Oakridge Country Club, Hopkins, MN

We are excited about this year's annual conference. In addition to hearing from the management of one of our portfolio companies (more details to follow at a later date), another of our featured speakers is **Doug Lennick**, Co-Founder and Chief Executive Officer of the **Lennick Aberman Group**.



Doug Lennick, Chief Executive Officer and Co-Founder of the Lennick Aberman Group and author of internationally renowned books on behavioral leadership and finance will be with us to discuss the art and science of human behavior, financial and otherwise. Doug provides a clear four-step method for making wise financial and life decisions based on core values, and provides a thoughtful analysis of what will bring you the greatest long-term success and fulfillment in life.



OTHER UPCOMING EVENTS...

PRIVATE STRATEGY BRIEFING LUNCHEONS, 12:00-1:00P AT TEALWOOD

Learn more about Tealwood, overviews of our methodologies, performance, market insights and research findings:
Wednesday, July 20 📅 **Wednesday, October 5**

PORTFOLIO BRIEFING LUNCHEONS, 12:00-1:00P AT TEALWOOD

Delve into portfolio specifics in an informative and lively format. Upcoming luncheon dates are:
Wednesday, August 24 📅 **Wednesday, October 19**

Visit www.tealwood.com for details. To RSVP: cpeppin@tealwood.com or 612.340.0181.

Tealwood holds special events throughout the year. Visit our website often for schedules and updates.

TEALWOOD ASSET MANAGEMENT

1225 IDS Center, 80 South Eighth Street, Minneapolis, MN 55402 612.340.0181 www.tealwood.com