WINFIELD
ASSOCIATES

Winfield Quarterly

July 2009

Customized Investment Portfolios and Private Wealth Advisory Services

MARKET COMMENTARY

The second quarter rally was a welcome relief. After six straight quarters of decline, the S&P 500 rallied 37.9% from the March lows and posted a 15.9% increase for the period, marking the benchmark's best quarterly performance since 1998. The anticipation of an economic recovery buoyed stock prices in most sectors, especially cyclically sensitive areas such as technology, commodities, industrials and financial services. Investors' enthusiasm apparently focused on finding a cyclical bottom rather than waiting for the official pronouncement of the end of the recession. Unemployment rose to 9.7% in June, reaching levels not seen since 1983. First quarter GDP declined at a rate of -5.5% versus the fourth quarter of 2008. Home prices fell to new lows in April, off -33% from their peak in June 2006.

Despite these negative data points, there are indications of "green shoots" and a slowing rate of bad news. Investment as a percentage of US GDP fell to a 50-year low of 12.2% in May, indicating the need for a long overdue surge in capital expenditures. Inventories collapsed beginning late in 2008 and well into 2009 as world economies suffered from depressed demand, signaling a potential bottom in the business cycle.

A case in point is the highly cyclical US automobile industry. The auto sector comprises approximately 4% of the economy, but its contribution to changes in GDP tends to be profound. The table below provides the number of new passenger vehicles and light trucks sold in the US over the past three years.

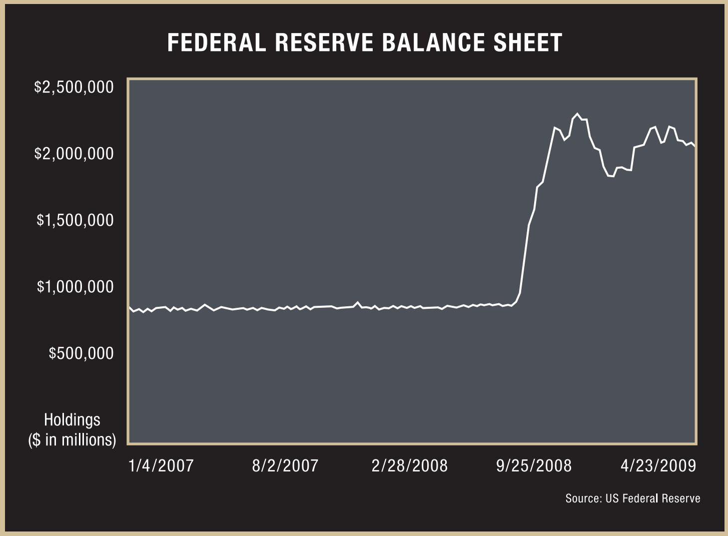
US AUTOMOBILE SALES	
2007	15 million
2008	13 million
2009E	9 million

Over the past decade, on average, nearly 15 million were sold annually, and 10 – 12 million vehicles were scrapped, creating a relatively predictable cycle. Scrapping stimulated by the government's "Cash for Clunkers" rebate (effective August 1) should result in strong auto sales for the next several quarters. The program provides $1 billion in funding in fiscal 2009 and probably another $3 billion in 2010. We expect vehicle production to surge in the next few weeks as GM and Chrysler reopen plants to replenish inventories. The spillover of auto sales into consumer confidence and industrial production could result in a significant, albeit temporary, boost to GDP during the second half of 2009 and into 2010.

Throughout the second quarter, commodity prices also confirmed improving fundamentals. Oil jumped from $48 per barrel on March 31 to $70 per barrel on June 30, and copper prices held in the $2.00 - $2.50 per pound level after falling to $1.35 per pound at the end of 2008. To a large extent, the surge of prices is attributed to demand from China and its need to replenish stock piles of raw materials. The trend waned late in the quarter and into July, but will likely resume with a worldwide economic recovery.

The credit markets demonstrated significant progress during the first half of 2009 and continued to move to more normal levels in July. The 90-day LIBOR rate, which peaked last October at 4.64%, stood at 0.51% at the end of the quarter. Credit spreads tightened for corporate debt, especially in the high yield market. Junk bonds as an asset class provided their best quarterly performance ever, returning 23.1% during the second quarter and 30.4% for the first half of 2009, breaking the prior records set in 1991 (+20.7 in 1Q91 and 29.6% in 1H91). US Treasuries stalled after a remarkable move in 2008 as yields climbed to 3.48% on 10 year bonds.

Inflationary concerns sit at the forefront of most investors' minds with the federal funds rate now targeted between 0% and .25%. Moreover, the government's massive quantitative easing programs backed by the expansion of the Federal Reserve's balance sheet are unprecedented. The graph below demonstrates the cumulative effect of the numerous bailouts on our system.



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The Fed's assets have now crossed the $2 trillion mark after hovering around $800 billion in 2007 and 2008. The Fed's acquisition of these assets, consisting mainly of loans to financial institutions and key credit markets, pools of mortgage backed securities and traditional security holdings, has pumped our money supply to previously unimaginable levels. The offset to the massive injection of liquidity was the global destruction of wealth in 2008, estimated to have been over $10 trillion. Current economic conditions such as underutilized capacity and the absence of wage increases, suggest inflationary threats will be contained for at least the next several quarters. In the long run, however, the Fed will need to reduce its massive debt, especially if interest rates rise. Our investment strategy remains similar to last quarter. We are maintaining a significant position in fixed income securities and adding to equity positions when appropriate.

MACROECONOMIC OUTLOOK

	April 2009	July 2009
US GDP	Negative	Negative
Inflation	Neutral	Neutral
Employment	Negative	Negative
Productivity	Positive	Positive
Corporate Profits	Negative	Negative
Consumer Debt	Negative	Negative
International Growth	Negative	**Neutral**

BUNDLED STATEMENTS

Most custodians, including Schwab Institutional, have a statement bundling service to streamline your monthly mailings and simplify your record keeping.

- Automatic bundling for accounts with identical account holders, tax ID numbers and mailing addresses.
- Clients may also request to have other statements included in their bundles, such as those with separate account holders or tax ID numbers by completing a **Statement Bundling Letter of Authorization Form.**

ROLLOVER YOUR 401(K) ASSETS TO YOUR IRA

- A Rollover IRA generally gives you more flexibility because you're not limited to the investments in your employer's plan.
- Rollover IRAs allow you to combine money from employer-sponsored plans, such as 401(k), 403(b) and governmental 457 plans, as well as existing IRAs, into one IRA account. Consolidating retirement accounts simplifies portfolio management and may reduce the costs associated with your investments.

MARKET PERFORMANCE

	2Q 2009	2009 YTD
Dow Jones	11.90%	-2.08%
S&P 500	15.94%	3.26%
Nasdaq	20.05%	16.36%
Russell 2000	20.23%	1.77%
MSCI EAFE	23.76%	5.64%
Barclays Agg	1.78%	1.90%

WHEN TO WORK WITH WINFIELD

PRIVATE INDIVIDUAL INVESTORS

- Manage accumulated wealth, inheritances and settlements to meet investment objectives

ENDOWMENTS AND FOUNDATIONS

- Manage assets with a long-term growth strategy while meeting investment policy requirements

BUSINESS OWNERS

- Customize investment portfolios to meet investment objectives and lessen risk of concentrated assets
- Defer taxable earnings in profit sharing plans
- Manage and advise 401(k) plans

BUSINESS PROFESSIONALS

- Customize investment portfolios, manage stock options and consolidate 401(k)/IRA plans to meet investment objectives and lessen risk of concentrated assets

RETIREES

- Customize investment portfolios to meet investment objectives with the option of drawing income
- Management of IRAs, trusts and taxable accounts

www.winfieldinc.com
700 West St. Clair Avenue, Suite 404 • Cleveland, OH 44113
(216) 241-2575 • (888)322-2575 • fax: (216)241-4774