WINFIELD
ASSOCIATES

Winfield Quarterly

April 2011

Customized Investment Portfolios and Private Wealth Advisory Services

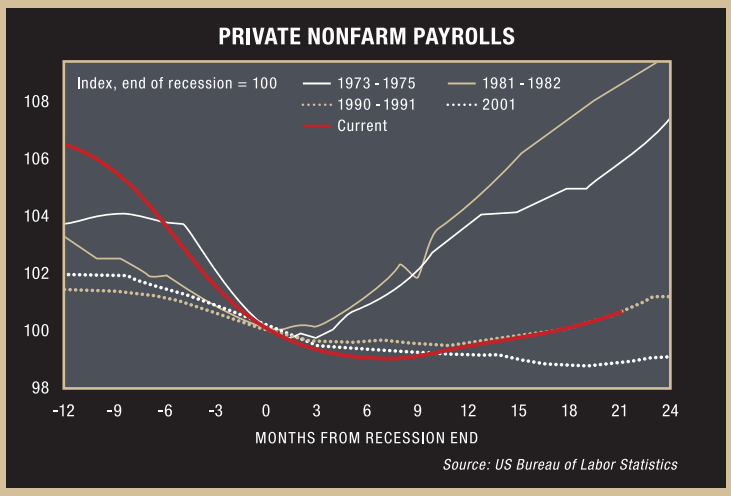
MARKET COMMENTARY

While not as robust as last year's fourth quarter, the first quarter of 2011 registered a strong 5.87% gain for the S&P 500. The Dow Jones Industrial Average (DJIA) rose 7.09% and the mid-cap Russell 2000 index continued its outperformance with a gain of 7.64%. For the DJIA, the period was the best first quarter performance in twelve years. Despite disruptive news from the Middle East and the historic earthquake and tsunami in Japan, the equity markets remained resilient. Fear that the recovery from the Great Recession would end as a result of the turmoil caused the markets to dip in late February and early March. But from mid-March through the last week of the quarter, the markets moved ahead, reacting to continuing positive macro economic data and the belief that the adversity of current events would have relatively small economic consequences. The economic recovery has generally been slower than other post-WWII recessions, but still appears sustainable. The equity markets, however, have recovered over 95% from their lows and are nearing their highs of 2007. Nonetheless, equity valuations are still at reasonable levels as corporate profits have shown high growth, keeping price to earnings ratios low.

The momentum of the US recovery slowed in the first quarter, but not enough to intensify predictions of a double dip recession. For the most part, GDP forecasts for the first quarter have been modified from a 3.5% to a 2.5% gain, but are expected to re-accelerate in subsequent quarters. The lessening is attributed to lower than expected consumer and business spending early in the quarter. This could be problematic if the trends continue, but durable goods spending within the consumer spending index held up and unless this segment turns down, the overall index should recover. Also, business spending should continue to be relatively strong as the ISM index (Institute of Supply Management) and private payrolls are not slowing meaningfully.

The unemployment rate remains a significant concern to the sustainability of the recovery. In early April, the US Bureau of Labor Statistics (BLS) reported that the unemployment rate stood at 8.8%. Yet, as we have mentioned in previous newsletters, unemployment is a lagging indicator. A better leading economic indicator is the measure of non-farm payrolls reported by the BLS on a monthly basis. According to the BLS, the total non-farm payroll figure accounts for 80% of the workers who produce the entire GDP of the United States. The graph below illustrates the trend of private non-farm payrolls leading up to and after the end of the five most recent recessions. The red line demonstrates the steep decline in employment twelve months before the 2008-2009 recession came to a close. Similar to the 1990-1991 recession, represented by the beige dotted line, the recovery in payrolls is slow but steady. In the 1973-1975 and 1981-1982 recessions, non-farm payrolls accelerated sharply following the end of the economic downturns. While the unemployment rate remains a concern, the graph illustrates that the rate of improvement in non-farm payrolls is not as anemic as many fear and is in fact, better than the recovery after the recession in 2001.

We believe low interest rates, increasing productivity and a weak US dollar will contribute to economic expansion going forward. Confirming the upward trend, the Conference Board Leading Economic Index® increased again in February and points to more robust economic expansion over the coming months. However, we recognize numerous factors that threaten the recovery. Perhaps the greatest risk is the sharp increase in commodity and oil prices. With oil trading close to $110 per barrel and gasoline prices nearing $4.00 per gallon, demand destruction is underway in developed countries. Our strategy to counter the trend is to invest in commodities and materials-related companies that benefit from globalization.



FIRM BROCHURE

In March, Winfield filed a new Firm Brochure with the United States Securities and Exchange Commission (SEC). This brochure provides information about the qualifications and business practices of our company. Clients of Winfield received a copy of the Firm Brochure at the end of the first quarter. Information about Winfield is also available on the SEC's website at www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 801-54970.

CHILD TAX CREDIT, EDUCATION TAX BREAKS

The Tax Relief, Unemployment Insurance Authorization and Job Creation Act signed by President Obama in December 2010 included several provisions to benefit families. Under the terms of the law, the child tax credit was extended for two years. This credit allows eligible families to reduce their federal tax bill by up to $1,000 for each qualifying child under age 17. In addition, the expansion of the Earned Income Tax Credit included in the economic stimulus package will continue for two more years.

The agreement also extends several tax breaks designed to reduce the cost of paying for college, including:

The American Opportunity Credit, which is designed to offset the cost of college

The credit, extended through 2012, provides a tax credit of up to $2,500 per college student per year. Taxpayers can claim the credit for up to 100% of the first $2,000 in qualified college costs and 25% of the next $2,000. To get the full credit, you'll need to spend at least $4,000 on qualified expenses. In addition, the income limits on this credit are broader than limits on the Hope and Lifetime Learning Credits, which have been around since the Clinton administration. Married couples with modified adjusted gross income of up to $160,000 can claim the full credit.

Coverdell Savings Accounts

The tax agreement allows families to contribute up to $2,000 a year to these tax-advantaged accounts through 2012. Without the extension, the maximum annual contribution to these accounts would have dropped to $500 in 2011. Unlike the more widely used 529 college savings accounts, money from accounts can also be used for elementary and secondary private school expenses.

Student Loan Deduction

A provision that allows student-loan borrowers to deduct up to $2,500 in interest on federal student loans will be extended through 2012. Without the extension, the deduction would have still been available, but with lower limits for eligible borrowers.

MARKET PERFORMANCE

	2010	2011 YTD
Dow Jones	14.04%	7.09%
S&P 500	14.79%	5.87%
Nasdaq	16.91%	4.83%
Russell 2000	25.31%	7.64%
MSCI EAFE	4.90%	2.67%
Barclays Agg	6.54%	0.42%

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

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