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Customized Investment Portfolios and Private Wealth Advisory Services

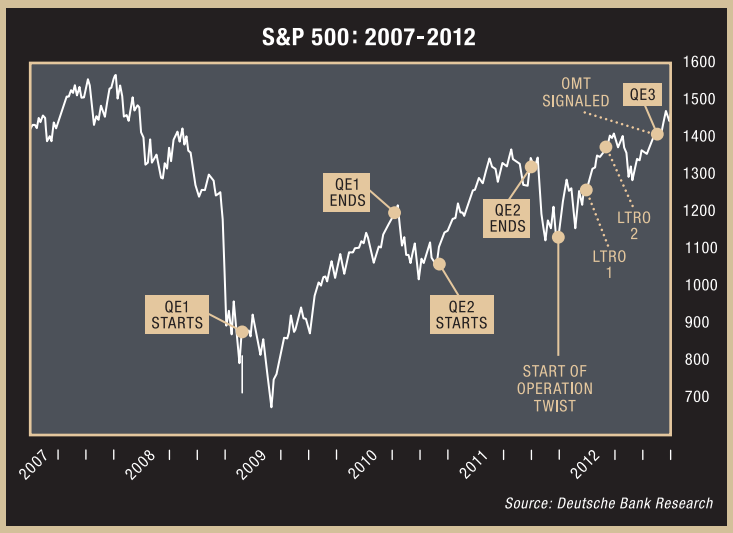
MARKET COMMENTARY

Investors may be puzzled by the strength of global equity markets so far in 2012 in light of slowing growth in the United States and abroad. Most forecasts for US GDP growth in 2012 are now 1.8% versus 2.4% at the beginning of the year. Similarly, global GDP forecasts are now 3.0% versus 3.2% at the start of 2012. Concerns surrounding the financial stability of the European Union, the fiscal cliff in the US, slowing growth in China, and elections worldwide have contributed to macroeconomic uncertainty plaguing GDP forecasts. Despite downward revisions to GDP, many equity markets climbed the wall of worry during the quarter, finishing September near their all-time highs.

There are several factors contributing to the markets' behavior, but none more important than the coordinated efforts of the Federal Reserve and the European Central Bank (ECB). In September, Federal Reserve Chairman Bernanke announced QE3 which includes adjustable, open-ended $40 billion per month mortgage backed security purchases to "quicken the recovery...generate new jobs and reduce the unemployment rate." The announcement should partially offset fiscal contraction in 2013E and support consumer spending via the resultant wealth effect. The announcement was also a symbolic shift within the Fed's "dual mandate" with increased focus on employment versus inflation. Moreover, the announcement included a statement that the Federal Reserve intends to keep interest rates low through 2015. Unless inflation or employment rises sharply, investors can reasonably assume rates will remain at the current levels for the next several years.

In the fall of 2011, the appointment of Mario Draghi to President of the European Central Bank (ECB) apparently marked a willingness of the central bank to liquefy ECB members by buying unlimited amounts of short-term paper from sovereign governments. This action was instituted through the LTRO (Long-Term Refinancing Operations) late in 2011, which stabilized global equity markets. In August 2012, the ECB extended its commitment, announcing the Outright Monetary Transactions (OMT) program which provides a framework for secondary market bond purchases for countries that sign a Memorandum of Understanding agreeing to deliver reforms. The new program theoretically provides unlimited liquidity, removing concerns over the size of the European Financial Stability Fund / European Stability Mechanism (EFSF/ESM). While long-term risks to the structure of the EU remain, OMT significantly reduces the chances of a European credit crisis in the near-term.

Over the past several years, US equity markets have been highly correlated to the announcement of central bank interventions by both the Fed and the ECB.



The graph above demonstrates the effect of monetary policies on the S&P 500. Since November 2008, the Federal Reserve has engaged in three significant quantitative easing programs (QE1, QE2 and QE3). Other steps such as influencing the shape of the interest rate curve (Operation Twist) to keep rates low have also positively affected equity prices. During the same period, the ECB implemented three of its own monetary programs (LTRO1, LTRO2 and OMT). Since the beginning of the Fed's intervention in 2008 through the announcement of OMT by the ECB in August, the S&P 500 has risen 63%. Clearly, the Fed and the ECB have fueled much of the economic recovery following the Great Recession in 2008-2009.

Now that the world's most powerful central banks have committed to unlimited quantitative easing to sustain the recovery, the global economy must produce positive outcomes to appease investors' concerns. There are a number of signs that an artificially low interest rate environment is making a difference. Housing starts, which bottomed in 2008 at a 480,000 unit annual rate, are now steady at an 800,000 annual rate. The news portends a recovery back to more normal levels of 1.5 - 2.0 million per year. Weekly jobless claims are down from the 600,000 - 670,000 range in 2008 to the 340,000 - 360,000 range in September 2012. North American automobile and light truck sales are up to an estimated 14 million units in 2012 from 10 million units in 2009 which was the worst year for auto sales since 1982.

As always, there are potential threats to the markets' momentum. Corporate profits are at peak levels, both in absolute dollars and profit margins. Increased profits will now depend more on increased sales, so analysis of

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individual companies and their growth prospects will be critical. As we have written, corporate financial positions, for the most part, are strong with record levels of cash and cash flow. This should portend increased dividends, mergers and acquisitions and stock buy-backs, all of which, increase shareholder value.

Our outlook for the remainder of 2012 and into 2013 includes a cognizance of the political scene. A widely known and worrisome event in the near future is the implementation of the "fiscal cliff" in January. The aggressive legislation is an attempt by the US government to reduce the US budget deficit by increasing taxes and reducing expenditures. The actions are specific laws under the Tax Relief Act of 2010 (abr.) and the Budget Control Act of 2011. According to the Congressional Budget Office (CBO), federal revenues would increase 20% from 2012 to 2013 while federal spending would be reduced less than 1%. The federal deficit would be reduced $560 billion in 2013 from $1.2 trillion in 2012, but because of the tax increases, the economy will slow and unemployment rate will increase to 9.1%. Consequently, the Congressional Budget Office projects the US will dip into another recession in the first half of 2013. The CBO, however, forecasts the short run austerity impact will ease in the second half, the economy will then resume growing and long run deficits will decline from current projections. The controversy of the fiscal cliff is short run versus long run. A sharp reduction (austerity) can send the economy into a tail spin, but in the long run will ease the burden of large debt. This is the same dilemma of many of our European counterparts. The outcome of the current election could change the timing of the fiscal cliff with more moderate tax increases and greater spending reductions but some mixture will likely be implemented for the sake of fiscal responsibility.

CLIENTVIEW WEB PORTAL

We are now pleased to offer the ClientView web portal, a tool that clients will use to view quarterly reports, trusts, wills, and other critical financial documents. This platform offers a high level of security to protect confidential information, and cloud-based technology ensures that client documents remain safe and available wherever there is web access. We are excited to have this new way to promote communication between clients and advisors.

REQUIRED MINIMUM DISTRIBUTION

Individuals are generally required to withdraw a minimum amount of money from tax–advantaged retirement accounts each year beginning the calendar year after turning 70½. This amount is called a Required Minimum Distribution (RMD). Individuals must take RMDs from any retirement account that included tax–deferred assets or had tax–deferred earnings. These accounts include:

- Traditional IRAs
- SIMPLE IRAs
- Most Keogh accounts
- Rollover IRAs
- SEP–IRAs
- Most 401(k) and 403(b) plans

Annual RMDs may be taken in one distribution or periodic withdrawals throughout the year, but the total annual minimum amount must be withdrawn by the deadline of December 31. Of note, individuals can always take more than the RMD amount. Please contact us if you have questions.

MARKET PERFORMANCE

	3Q 2012	2012 YTD
Dow Jones	4.32%	9.98%
S&P 500	6.41%	14.56%
Nasdaq	6.17%	19.62%
Russell 2000	5.34%	12.32%
MSCI EAFE	6.13%	7.01%
Barclays Agg	1.62%	2.03%

WHEN TO WORK WITH WINFIELD

PRIVATE INDIVIDUAL INVESTORS

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

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- 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