WINFIELD ASSOCIATES

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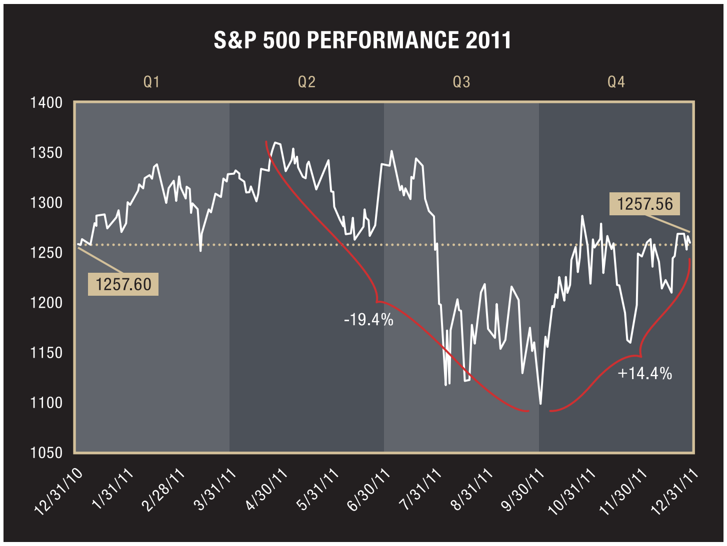
Customized Investment Portfolios and Private Wealth Advisory Services

MARKET COMMENTARY

Equity markets were like a roller coaster ride in 2011. The S&P 500 stood at 1,257.60 at the beginning of the year. During the first and second quarters, the market made a gradual climb, followed by a significant dip in August, a gut-wrenching trough in October (down -19.4% from the May high), a rapid ascent in November, only to return right where we started the year essentially flat at 1,257.56. Multiple geo-political events including the Arab Spring and Japanese tsunami in the first half of the year, the S&P downgrade of US debt in August, the failure of the Super Committee in November and the ongoing concerns of European debt contributed to unprecedented swings in volatility throughout the year. And yet, at the end of the ride, the benchmark index's 2.1% total return noted on the back page of our newsletter was entirely due to dividends.



While US stock markets finished 2011 relatively flat, equity markets around the globe suffered significant losses. The British market was off -6% for the year, Germany's -15%, France's -17%, China's -22%, Brazil's -26% and India's a remarkable -40%. At the core of investors' concerns was the European Union's ability to fund the sovereign debt of its member nations. Investors worried if the EU were to encounter a severe financial failure, the global financial system could potentially repeat a Lehman-type debacle of 2008-2009. Concerns surrounding the systemic risk of a sovereign default in Europe are well-founded. The EU represents approximately 25% of global GDP and 34% of global wealth as compared to 24% of global GDP and 28% of global wealth for the US. European banks are levered not with mortgages but mostly with sovereign debt of EU member nations. A sovereign default would have broad-reaching implications affecting European banks directly and non-European banks indirectly via counterparty risk.

The European Central Bank (ECB) now recognizes the complexity of the situation and has already undertaken significant steps to provide liquidity to the banking system. Since the European credit crisis commenced, the ECB has danced around liquefying, but now seems to be moving closer to a resolution. The recent LTRO (Long-Term Refinancing Operation) injected €489 billion in the banking system offering European banks low three-year rates on loans. The plan, while not a long-term solution, provides liquidity to stave-off an imminent collapse. This is a signal that the ECB, under its new president, Mario Draghi, is pursuing a more active monetary policy than the previous president Jean-Claude Trichet. On the basis of the ECB's more aggressive approach, member governments' deeper austerity measures and a recovery in demand, there is hope that the EU is aggressively working towards a solution.

Credit markets reflected the ongoing concerns of sovereign default. As we noted in our October Market Commentary, the yield of the benchmark 10-year Treasury bond dropped to an all-time record low of 1.695% on September 22. Throughout the fourth quarter and now into 2012, the yield of the 10-year remained at or near the 2% level, demonstrating investors' nearly insatiable demand for riskless assets. Of concern, on January 9, Germany issued short-term debt that produced a negative yield for the first time ever, providing stark evidence that an increasingly nervous European financial community is opting for security and liquidity over any semblance of returns. Germany's issue of €3.9 billion ($5.1 billion) of six-month treasury bills resulted in an average yield of -0.012%.

Despite a variety of negative news both at home and abroad, there are indications the US economy is gaining strength. Corporate profits in 2011 will be at an all-time high of over $2 trillion. S&P 500 earnings for 2011 are expected to increase 15.5% to $98.50 per share and 3.5% to $102.00 per share in 2012. In early January, the US Bureau of Labor Statistics (BLS) reported that the unemployment rate improved from 8.7% in November to 8.5% in December, and weekly jobless remained below 400,000. Although we continue to believe that the unemployment problem is structural in nature and recent readings include seasonal trends, improvements

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on the margin have profound effects on GDP. According to research conducted by Yale University economist Arthur Okun in 1962 and later revised by Andrew Abel and Ben Bernanke in 2005, every 1% improvement in unemployment should lead to an approximately 2% increase in real GDP over time.

Another positive indicator is housing starts which have languished at 500,000 – 600,000 units for the past 2-3 years compared to their peak of 2.3 million units in 2006. Mortgage rates are at generational lows and affordability is at all-time highs. A recovery in housing would significantly boost GDP and employment. Over the past few months the trend appears to be turning up from its trough. November starts came in at 685,000, up 9.3% in October and 24.3% from November 2010 (551,000). However, a persistent problem with housing is excess inventories of existing homes. An estimated 7 million houses with distressed mortgages remain in inventory and until they are reduced, home prices will likely lag. Nonetheless, we think a recovery is underway which will likely take several years to return housing starts to more normal levels.

Our investment strategy as we head into 2012 is to moderately shift our asset allocation to more risk. Bond prices still appear expensive and stocks inexpensive. The 10-year US Treasury is yielding less than 2%, selling at close to 20x earnings whereas the S&P 500 is selling 12.5x an estimated $102.00 per share for 2012. We expect global growth to slow from 4.2% in 2010 to 3.0% in 2011 and 2.5% in 2012, but we also expect central banks around the globe to actively accommodate growth. Over the next few months, we will look for structural improvements in Europe, lower inflation readings in emerging markets and gains in employment in the US to validate our moves into riskier investments.

2012 TAX RATES

At the end of 2012, income and capital gains tax rates are scheduled to increase. Without Congressional action, lower rates that were extended for two years by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 will expire at the end of 2012. The maximum long-term capital gains tax rate will increase from 15% to 20%. The current income tax rates and the rates that go into effect in 2013 are listed below:

RATES ON ORDINARY INCOME	2012	2013
$0 - $16,999	10%	15%
$17,000 - $68,999	15%	15%
$69,000 - $139,349	25%	28%
$139,350 - $212,299	28%	31%
$212,300 - $379,149	33%	36%
$379,150 and Above	35%	39.6%

*Married Filing Jointly

MARKET PERFORMANCE

	4Q 2011	2011
Dow Jones	12.70%	8.35%
S&P 500	11.74%	2.14%
Nasdaq	7.86%	-1.80%
Russell 2000	15.02%	-5.45%
MSCI EAFE	3.38%	-11.73%
Barclays Agg	1.12%	7.84%

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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