



Tyler Kocon
 Portfolio Manager
 Split Rock Private Trading
 and Wealth Management LLC
 218.879.3262

June 2011

Quarterly Newsletter

Greetings,

We are very pleased with the first half of 2011 in the equity markets. This year has been a little misleading however, and many people think that the markets are flat or even down year-to-date. The Dow Jones is actually up 11.45% this year and the S&P 500 is up almost 8% this year (as shown in the chart below). It is easy to understand why people would think that the markets could be flat or even down. We have the U.S. debt ceiling problems to deal with. The European debt crisis appears to be an ongoing issue. There was a recent uptick in unemployment; according to the U.S. Bureau of Labor Statistics the current unemployment rate is 9.2%. There are plenty of reasons to see negative returns in equities; but, even amongst all the short-term turmoil, the markets continue to show their resiliency. So where do we stand today? We are currently in the 3rd year of a Presidential cycle and there has not been a down year in the 3rd year of a Presidential cycle looking back as far as 1939. Does that mean we feel we should be wildly aggressive with our equity portfolios? No. We believe that now is a good time to be defensive with our equity positions. We currently like high dividends and consumer staples. High dividends can help hedge against sideways-trading markets and consumer staples can thrive no matter what the markets are doing. We recently visited the General Mills headquarters to help get an idea of what we can expect out of them and others like them in the short- and long-term. They're a great company and we feel even more confident now that consumer staples are one of the best places to.

-Tyler Kocon

	<i>1/3/2011</i> ^{*open price}	<i>07/22/2011</i> ^{*closing price}	<i>Total Return</i>
MAJOR INDEXES			
Dow Jones Industrial Average	11,577.43	12,681.16	11.07%
S&P 500 Index	1,257.62	1,345.02	8.09%
NASDAQ Composite	2,676.65	2,858.83	7.76%
Russell 2000	793.54	841.82	8.10%
OTHER INDEXES			
MSCI EAFE Index	58.61	60.18	5.57%
Dow Jones U.S. Real Estate Index	56.29	62.87	14.31%
Barclays Aggregate Bond Index	105.40	107.55	3.68%
SPDR Gold Trust	138.67	156.12	12.54%

*All information in the above graph was obtained through Morningstar. Total returns are year-to-date and calculated including dividends.

Investment Outlook Summary

(Italics denote changes from last newsletter)

ASSET CLASS	OUTLOOK	OBSERVATIONS
<i>Cash / Stable Value</i>	– Increased levels of cash	<i>Because of uncertainty with regards to the debt ceiling, we may look at using our cash position to capture any opportunities that present themselves.</i>
<i>Bonds / Fixed Income</i>	<ul style="list-style-type: none"> – Neutral on bonds – Cautious of U.S. Treasuries – Positive on short-term high-quality corporate debt – Positive on floating rate bonds – Positive on emerging market bonds 	<p>We expect volatility in the bond market over the next 6-12 months; however we are hesitant to decrease our exposure to bonds because they provide the greatest hedge to a volatile stock market. For example, when stock prices are falling, bond prices are usually rising.</p> <p><i>At some point in the future we believe the Fed will begin to raise rates to fight inflation; add the looming debt ceiling problem on top of that and we find that Treasuries are becoming less and less attractive.</i></p> <p>The default risk associated with high-grade corporate debt is low at this time. Short-term corporate debt is also less prone to interest rate risk than Treasuries.</p> <p>Because of their short maturity dates, their yields can adjust more quickly in a rising interest rate environment.</p> <p>As emerging markets strengthen, their bonds become more attractive and are hedged against the U.S. Dollar as well.</p>
<i>Stocks / Equities</i>	<ul style="list-style-type: none"> – Cautiously optimistic on stocks in 2011 – Positive on dividend-paying stocks – Positive on Consumer Staples – Positive on Infrastructure-related stocks – Negative on alternative energy – Real estate stocks show opportunities – International & Multinational stocks show value 	<p>We are keeping a close eye on inflation and oil prices as they could have a negative effect on consumer purchasing power. In contrast, per the 2011 Stock Trader's Almanac, there hasn't been a down year in the 3rd year of a presidential term since 1939. 2011 represents the 3rd year of a presidential term.</p> <p><i>If the market takes a pause, high-quality dividend-paying stocks present opportunities to get paid while we wait for the market to fully recover.</i></p> <p>Consumer Staples tend to be fairly more recession resistant than other equities. Regardless of current economic conditions, people still make purchases from Consumer Staple companies in order to take care of their basic needs.</p> <p><i>As emerging markets continue to grow and seek to expand their transit systems, infrastructure growth, repair, and replacement will be a high priority.</i></p> <p>Because of international and domestic alternative energy tax credits falling-off in 2011, we are currently negative on this area of the market.</p> <p>We feel there are long-term opportunities because of the recent commercial and residential real estate bubbles.</p> <p>International and multinational stocks are a good long-term hedge against the U.S. Dollar and the stock market.</p>
<i>Alternate</i>	<ul style="list-style-type: none"> – Neutral on foreign currencies – Positive on energy trusts – Positive on oil – Positive on natural gas – Positive on Gold 	<p>Due to unrest in the Middle East, the recent events in Japan, and record high government debt worldwide, all clients that had direct exposure to foreign currencies have had their position substituted with gold</p> <p>Because of the high dividends energy trusts tend to pay, they are a good way to help alleviate some of the stock market's volatility.</p> <p>As the global economy rebounds, and the demand for autos in emerging markets increases, we feel that the demand for oil will continue to rise. Oil is also a hedge against a falling U.S. dollar. The unrest in the Middle East also adds to our positive outlook on oil.</p> <p>It's an energy source that is highly abundant in the U.S. and can be looked at as a way to help decrease our dependence on Middle Eastern oil. Bill H.R.1380 was introduced on April 8th, 2011.</p> <p>Near term we are positive on gold due to Middle East turmoil and inflation fears and large U.S. and worldwide government debt.</p>

INFORMATION/MATERIAL IS PRESENTED FOR EDUCATIONAL PURPOSES ONLY. NONE OF OUR PUBLICATIONS (INCLUDING THIS ONE) IS MEANT AS INVESTMENT, LEGAL, TAX, OR ANY ADVICE OF ANY MANNER; PAST PERFORMANCE ISN'T INDICATIVE OF FUTURE RESULTS; PLEASE CONSULT A QUALIFIED INVESTMENT ADVISOR AND/OR TAX PROFESSIONAL BEFORE IMPLEMENTING ANY STRATEGIES DISCUSSED; THE INFORMATION IN THIS NEWSLETTER IS PROVIDED "AS IS". SPLIT ROCK PRIVATE TRADING AND WEALTH MANAGEMENT LLC DOES NOT WARRANT THE ACCURACY OF THE MATERIALS PROVIDED HEREIN. THE INFORMATION ABOVE IS PROVIDED AS GENERAL INFORMATION AND MAY NOT APPLY TO ANY ONE CLIENT'S SPECIFIC SITUATION.

ARTICLE PREPARED BY SPLIT ROCK PRIVATE TRADING

INFORMATION PRESENTED FOR EDUCATIONAL PURPOSES ONLY. PUBLICATION NOT MEANT AS INVESTMENT, LEGAL, TAX, OR ANY OTHER ADVICE OF ANY MANNER. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. INFORMATION PROVIDED "AS IS". SPLIT ROCK PRIVATE TRADING DOES NOT WARRANT THE ACCURACY OF THE MATERIALS PROVIDED HEREIN.

Why Staples, Why Now?

Identifying which phase of the economic cycle we are in - a period of economic expansion or economic contraction - can help investors in their effort to understand where markets may be headed. Historically, the economic cycle contains four phases: early, mid, late, and recession. We believe that we are currently in a mid to late cycle phase.

So why consumer staples, why now? One of the reasons we're so positive on consumer staple companies is their defensive characteristics. Consumer staples currently make up around 44.50% of our Equity & Commodity Rotation model (The Equity & Commodity Rotation Model is one of 14 models we currently manage and is available to clients that have \$50,000+ in any one account - *Clients please contact us if you are interested in finding out which model you are in*).



How well have consumer staples held up during past bear markets? Over the past ten years we have experienced two very significant bear markets. Consumer

staples (as measured by the Consumer Staples Select Sector SPDR Fund – XLP) outperformed the S&P 500 during that ten year period. What about our latest recession? Officially the National Bureau of Economic Research states that our most recent



recession began in December 2007 and lasted 18 months until June 2009. If you compare the consumer staples ETF, XLP, to the S&P 500 during that period you will see that consumer staples also outperformed in this timeframe. (Source: Google Finance: bit.ly/qROYEd)

Stocks bottomed out in early March of 2009 and have made a very nice run since then. XLP lagged the S&P 500 during this period, as consumer staples may not perform quite as well when markets are zooming.

We believe consumer staples companies will continue to perform well, even in down markets. No matter what our economy is doing, there are certain items that people will not live without. People are still going to buy soap (PG), pop (KO), toothpaste (CL), cereal (GIS), and diapers (KMB); they are still going to go to Wal-Mart (WMT) for products like toilet paper, shampoo, and deodorant; and people are still going to need to dispose of their trash (WM)



The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

The **S & P 500** is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

The **NASDAQ Composite** is a computerized system that facilitates trading and provides price quotations on more than 5,000 of the more actively traded over the counter stocks.

The **Russell 2000** index is an index measuring the performance of the 2,000 smallest companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small cap stocks in the United States.

The **MSCI EAFE Index** is an index created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia. This international index has been in existence for more than 30 years.

The **iShares Dow Jones U.S. Real Estate Index** seeks investment results that correspond generally to the price and yield performance of the Dow Jones U.S. Real Estate Index. The fund invests at least 90% of assets in securities of the underlying index and in depositary receipts representing securities of the index. The underlying index measures the performance of the real estate sector of the U.S. equity market. It includes companies in the following industry groups: real estate holding and development and real estate investment trusts ("REITs").

The **Barclays Capital Aggregate Bond Index** is a *market capitalization-weighted* index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented. Municipal bonds and Treasury Inflation-Protected Securities are excluded, due to tax treatment issues. The index includes Treasury securities, Government agency bonds, Mortgage-backed bonds, corporate bonds, and a small amount of foreign bonds traded in the U.S.

SPDR Gold Shares (also known as **SPDR Gold Trust**) is the largest gold exchange-traded product and second-largest exchange-traded fund in the world by market capitalization. This ETF denotes a share of gold bullion. SPDR Gold Shares are designed to track the price of a tenth of an ounce of gold. If the share price differs from the gold market price, the fund's manager exchanges blocks of 100,000 shares for 10,000 ounces of gold. The possibility of such exchanges keeps the ETF price roughly in line with the gold price, although the prices can diverge during each day. As of October 30, 2010, the trust had 41,574,486 ounces of gold in its custody, representing an asset value of \$55,972,246,241. SPDR Gold Shares is one of the top ten largest holders of gold in the world, behind France and ahead of China.

The performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's holdings, when sold or redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted.