



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

September 2011

Quarterly Newsletter

Season's greetings,

Since our last newsletter in June we have certainly seen a reversal in the markets. Have you ever heard the old adage "sell in May and go away?" Historically the stock market can be a dangerous place from early May until the end of October. This year has proven to be no different. The markets have performed abysmally from May until now and have just recently started showing some signs of possible recovery. Is now the right time to turn positive or bullish on equities? Here are some reasons why (for the rest of the year) we believe that the answer could be yes:

- We are in the third year of a presidential cycle. The stock markets have not had a down year in the third year of a presidential cycle since 1939 (source: Stock Trader's Almanac).
- We could see a "Santa Claus" rally by the end of the year. A Santa Claus rally is a rise in stock prices that occurs during the week between Christmas and New Years.
- Historically, November and December are the best two months to be invested in the stock market (source: Stock Trader's Almanac).

Regardless of the past couple month's volatility we are very pleased with how our portfolios have held up. We believe that it is a result of our more tactical approach to managing money, as opposed to a simple "Buy and Hold" or "Buy and Hope" strategy. Have a great Thanksgiving, Christmas and New Years

-Tyler Kocon

	<i>1/3/2011</i> *open price	<i>09/30/2011</i> *closing price	<i>Total Return</i>
MAJOR INDEXES			
Dow Jones Industrial Average	11,577.43	10,913.38	(-4.1)%
S&P 500 Index	1,257.62	1,131.42	(-8.7)%
NASDAQ Composite	2,676.65	2,415.40	(-3.1)%
Russell 2000	793.54	644.16	(-17.1)%
OTHER INDEXES			
MSCI EAFE Index	58.61	47.78	(-16.3)%
Dow Jones U.S. Real Estate Index	56.29	50.27	(-7.0)%
Barclays Aggregate Bond Index	105.40	110.11	6.5%
SPDR Gold Trust	138.67	158.06	13.9%

*All information in the above graph was obtained through Kwanti Analytics. Total returns are calculated including dividends.

Investment Outlook Summary

(Italics denote changes from last newsletter)

ASSET CLASS	OUTLOOK	OBSERVATIONS
Cash / Stable Value	<ul style="list-style-type: none"> - Decreased levels of cash 	<p>With cash basically paying nothing, and the possibility of a 4th quarter rally in the markets, we have decreased our exposure to cash.</p>
Bonds / Fixed Income	<ul style="list-style-type: none"> - Neutral on bonds - Cautious of U.S. Treasuries - Positive on short-term high-quality corporate debt - Neutral 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>With the recent downgrade of U.S. government debt and the run-up in treasuries due to the "flight to safety" effect, we feel that treasuries are an overvalued asset.</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>Even though the Fed said that they won't raise interest rates until 2013, and corporate fundamentals are still strong, we don't feel there is enough opportunity at this time.</p> <p>As emerging markets strengthen, their bonds become more attractive and are hedged against the U.S. Dollar as well.</p>
Stocks / Equities	<ul style="list-style-type: none"> - Increasingly optimistic on stocks for Q4 - Positive on dividend-paying stocks - Positive on Consumer Staples - Slightly negative on Infrastructure-related stocks - Negative on alternative energy - Real estate stocks show opportunities - International & Multinational stocks show value 	<p>There hasn't been a down year in the 3rd year of a presidential cycle since 1939, and we are currently in the 3rd year of a presidential cycle. Historically, November and December are the two best months to be invested in stocks. We could see a Santa Claus rally by the end of the year.</p> <p>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.</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>Recent orders from overseas for large equipment (earth movers, cranes, etc...) has declined which could limit the upside potential of infrastructure-related stocks.</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. We are weary of some international countries at this time.</p>
Alternate	<ul style="list-style-type: none"> - Neutral on foreign currencies - Positive on energy trusts and Master Limited Partnerships - Positive on oil - Positive on natural gas - Positive on Gold 	<p>Due to unrest in the Middle East, <i>the problems in Greece</i>, 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>With the demand for autos in emerging markets increasing, 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>Long-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 ABOVE INFORMATION IS PROVIDED AS GENERAL INFORMATION AND MAY NOT APPLY TO ANY ONE CLIENT'S SPECIFIC PORTFOLIO OR INVESTMENT 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.

WHEN LOSING...LESS IS MORE

At the end of June we wrote an article entitled "Why staples, why now?" In that article we discussed how consumer staples can be an attractive place to invest while the markets trade down or sideways. Since we felt at that time that the markets could struggle, at least from early May until the end of October, we started looking for such plays and began searching for stocks with low



betas and decent dividends. One sector that kept popping up in our screens was consumer staples. Once we looked past the technical aspects and focused on the fundamentals, we were

convinced that staples were the place to be.

We asked ourselves a very simple question: "what kinds of businesses are best-positioned to withstand an economic slowdown?" Our answer came in many parts but the main theme was evident. No matter what the economy is doing there are certain products that people simply cannot live without, the "staples" of everyday life: cereal, bread, milk, toothpaste, toilet paper, etc. Once we were confident with our thesis, we started sifting through the various consumer staples companies to find the ones that we felt were positioned well to handle the current economic environment.

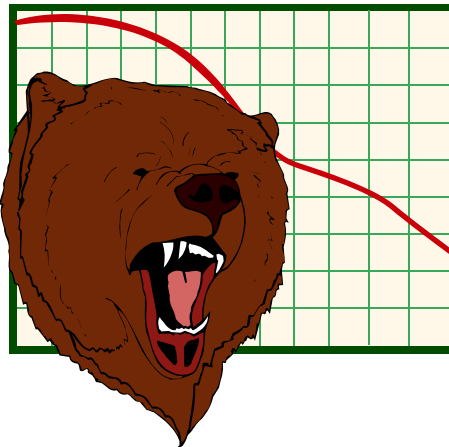


One company that we really liked, and still really like, is General Mills (NYSE: GIS). We recently toured the General Mills headquarters in Minneapolis, MN and were very impressed with their operations. We were able to "kick the tires" with GIS's investor relations and gained

some valuable insights into GIS and consumer staples as a whole. As a result, our trip basically verified our conclusion about GIS and staples.

So what does all this mean? Well, from July 22 (the most recent peak in the stock market) through September 30th, the S&P 500 has struggled and has produced returns of -15.8% (source: Google finance). Consumer staples, as measured by the Consumer Staples Select Sector ETF (XLP), are down much less at only -6.73% (source: Google finance). General Mills beat them both and actually produced a positive return of 1.69% (source: Google finance) in the same time period.

Sometimes there is just nowhere to hide from a declining "BEAR" market. If this is the case, finding ways to



minimize risk and minimize losses (even if it means potentially limiting upside in the event of a market surge) is key. Consumer staples may be just the right place to park money in uncertain times.

**Please note that not all Split Rock Private Trading investment accounts contain any or all of the positions mentioned within this article. Client accounts may or may not hold GIS or XLP or both, as appropriate investment decisions are based on multiple factors including account size and risk tolerance. Clients can find out if they have (or had) XLP, GIS, or any other investment at any time by contacting their portfolio manager.*

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.