

2010 Fourth Quarter Investment Commentary

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Wow! Another great year of investment results restores our confidence. We did not have the Double Dip that so many called for. Greece, Ireland, Spain and Europe did not sink into the sea. The BP oil spill in the Gulf of Mexico was resolved better than expected. The United States is crawling its way up from the pit of despair. Hallelujah!

**We are up an average of 25.6% for 2010.
And 52.1% since 12/31/08!**

Power One (PWER), one investment that we worked to add to all accounts over the years was the “Best Mid-Cap Stock” of 2010, up 350.9%! We began purchasing Power One in 2004 and continued right up through 2008. We held on through its ups-and-downs during these years until our reward in 2010.

Our plus 25.6% for 2010, coming right behind our 31.3% plus for 2009, gives reason to cheer. With the DJIA up only 11%, the NASDAQ up only 16.9% and the S&P 500 up only 12.8%, we clearly blew past these averages. In doing so, we provided a rebuttal to the proponents of passive and index investing.

I had the opportunity to review the history of one of our long-term accounts recently. This gave me additional reassurance and confidence in our work. We began with this client in 1986 when he turned over \$380,000 in pension assets to us. He added only \$40,000 over the ensuing years and began required annual withdrawals in 1992. Since then, we distributed \$1,349,412 to him. Today his account is valued at \$258,000. During this time, we experienced five serious downturns in our equity markets: those of 1987, 1990-91, 1998, 2000-2003 and the most recent debacle 2007-2009. Throughout this period, we remained fully invested. We held through periods of turmoil, shifted moderately on occasion, but, for the most part, held into our investments. We remained primarily in growth equity investments, despite living in retirement years. The \$1.3 million, in round numbers, that we returned on his original \$380,000 provided an annual return, in simple computations, of about 11.8%. Over a twenty-four year period that included the worst financial downturns in our lifetimes, an 11.8% annual return is something I will take anytime. This example illustrates rather well the value of long-term sound investing.

This example also underscores the value of what we bring to the table. We are long-term investors and stock pickers, more so than traders. We are becoming a rare breed. Most in this business today are mutual fund salespersons who allocate shares of various types of mutual funds according to a so called “risk tolerance” and call it a day. Others, the professional quants, drive computer models, with their occasional flash crashes, through the trading day and harvest whatever they can off the movements in the markets. This is to our benefit. We do not have much competition.

Your reports this quarter include the 2010 annual performance report along with another running over the past two-year period. December 2008 was the close of a miserable year. Remember? To experience the return of our money, plus some, within two years was hard to imagine back then. Today it is a reality and cause for celebration. So celebrate!

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We expect that we will see more investors and players return to the markets during 2011. The easiest money has been made, however, and stock and theme picking becomes all-the-more critical going forward. We think that we will experience a more obvious economic growth during the year and this will enliven the spirits. However, I also think that our nation has much work ahead of itself. We must chart a more focused path into the future and coordinate our efforts between the public and private sectors. However, this is beyond my daily work and in the hands of others. I can only comment on what they may do. My opinion holds little value to those occupying those positions of decision power. Therefore, I will waste little energy on this here. My job is to dance around the decisions and to help put wealth into your pockets. In short, I expect upward prices in stock values during 2011. We will look forward to the herd jumping in behind us.

Tax season is upon us. I am including your Tax Systemizer in this mailing if you are among our clients for whom we prepare your tax return. Please complete this as usual and return it to my office. Of course, feel free to call to make a visit should you want to stop in instead of mailing your information.

You note that I still utilize mail and hard copy of my letters. I still prefer paper to digital media and save you the trouble of printing these materials at home. However, if you prefer digital mail via the internet going forward, please let us know and we will accommodate you.

We look forward to hearing from you over the next three months. Until then, stay well and have a great new year!