

2011 Second Quarter/Semi-Annual Investment Commentary

Included in this mailing are Part 2A & 2B of our Form ADV, our brief description of our business practices in simple, straightforward language. This is a requirement of the Dodd-Frank financial reform bill signed into law on July 21, 2010.

“I think we need QE3. If Milton Friedman were here with us and if he was giving us the same advice he gave to Japan a decade ago, Milton Friedman would be saying that we need QE3.”
--Brad DeLong, University of California, Berkley economics professor, as reported to Bloomberg News

“...and a time to every purpose under the heaven...”
-Ecclesiastes
(Including a time to raise taxes to pay off our nations’ war debts.)

“Frankly, raising marginal tax rates on the highest-income earners is not helpful for creating a meaningful economic recovery.”
-Robert J. Barro, professor of economics at Harvard University
(I disagree)

“I rob banks because that’s where the money is.”
-Willie Sutton

“Why can’t we all just get along?”
-Reginald Denny

“The notion that a broad decrease in tax rates raises revenue was never taken seriously by professional economists.”
-Alan D. Viard, former Treasury official on tax issues under G.W. Bush

Preview

Today is Friday, July 29, and we are witnessing the hostage taking of our legislature by the Tea Party in Congress. It is ugly and painful. August 2, is D-Day for the Debt Ceiling matter. This morning our equity markets are down significantly because of the debt-ceiling impasse in Congress. I have been adding positions to our portfolios over the past eight weeks during market weakness due, in part, to this impasse. It appears that I have been early. Today, and possible Monday or Tuesday, may prove to be better days to buy as panic takes hold. I believe that this impasse will eventually blow over and that our purchases will prove to be fruitful. Meanwhile, we live through the misery of watching the ugly process of legislation unfold over our T.V. screens. I am livid and disheartened. On the bright side, we all receive, if we follow the process, a first-hand education on the subject of debt ceiling and national budgeting. Additionally, we watch the marvel of our two legislative bodies and our executive branch play out as envisioned by our founding fathers.

Background

Michael Shermer, the publisher of Skeptic magazine, recently had his book published, A Trick of the Mind. In this, he elaborates on how we develop our beliefs and view of the world. I, especially after having talked to an adamant supporter of the current Republican agenda, wonder how Americans today, in light of the inter-connectedness brought about by our mass media, our internet and our common background, come to view our world so differently. Possible reasons such as, differences in orientation, some of us may be more “other-oriented” while others more “self-oriented”. Some may spend more time pondering

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and studying issues, while others blindly accept ideas implanted in their brains by those seemingly more intelligent. Some make decisions to feather career advancement, such as a lobbying career post elected office. Mr. Shermer uncovers reasons we all see so differently in his research. He writes that our brains are “belief engines” that naturally “look for and find patterns” and then infuse them with meaning. Everything must have meaning for humans. These meaningful patterns form our beliefs that shape our understanding of reality. Our brains, then, tend to seek our information that confirms our beliefs, ignoring information that contradicts them. Our believing dictates what we are seeing. Recall the wisdom from the Talmud, which I have included in previous letters, “We see the world, not as it is, but how we are.”

None of us has the right to impose our belief system onto others. The beauty of democracy, when it works as purported, is that we each come to respect the beliefs of others and seek compromise in our common desire to pursue Happiness. When I impose my belief system onto you and that makes you unhappy, I am violating your right to pursue happiness. You violate mine, when you act in a similar fashion. When some elected representative in Congress claims that, he/she speaks for the American people and thereby seeks to impose some hair-brained legislation over my life, he had best consider my view before he/she does so. Collaboration is critical to success. We all must get along.

We Cannot Afford For our Representatives to Learn on the Job

Every professional career in our country requires certification and proof of competency PRIOR to rendering service, EXCEPT elected office. We have elected idiots (several come to mind) to representative office just because of their ability to raise money and “bull-shit” better than an opponent can. We allow half-wits to run for elected office and to buy guns without question. Is it any wonder why we’re in the fix that we are? It’s harder to get a drivers license than it is either of the aforementioned. What’s up with that?

I would like to see a Certification to Run for Elected Office in the United States become a requirement for everyone seeking to serve the American people in a representative manner. Study, successful passage of exams, and an IQ above 100 are requirements for certification. The curriculum should include: 1) The history of the United States; 2) The history of the World; 3) Civics; 4) Collaborative bargaining; 5) Science, basic and advanced; 6) Comparative religions; 7) Economics; 8) Tax policy, theory and history; 9) ETHICS; 10) Civility; 11) Logic; 12) Mathematics; and 13) Self-examination and psychology. After the completion of a prescribed number of hours in these studies and the successful passing of competency exams, one would then be CERTIFIED TO RUN FOR ELECTED OFFICE in THE UNITED STATES. Thereafter, fifty annual continuing education credits would be required to hold one’s certification. The time has come. We get the government we deserve, and we deserve better than what we have today.

Events & Policy, Lies & Deception

We are in the summer doldrums and suffering through another period of stock market weakness. This happens every year, generally between May and October. We all should be accustomed to this by now. The issues that were before us during the first half of the year include: Greece (again); PIGS; over-leveraged economies (again); the demise of the Euro (again); the haggling within our U.S. Congress (again); unemployment (still); lackluster recovery (but little talk of a double dip this year); the Debt Ceiling; the Tea Party; jobs, jobs, jobs; Dodd-Frank; The Affordable Care Act; the Consumer Financial Protection Bureau; Elizabeth Warren; Iraq; Afghanistan; the IMF; DSK; cost of war; foreclosures; housing prices; Detroit; Grover Norquist and the Americans for Tax Reform; Ayn Rand (again); Paul Ryan; Scott Walker of Wisconsin; Andrew Weiner; the Strategic Petroleum Reserve; QE2; QE3; austerity; the Japanese earthquake; the price of gold; the Arab Spring; The end of the world (this time it was May 21); China Sea disputes; U.S. Credit Rating downgrade; American Legislative Exchange Council (ALEX); Robert Murdoch and hacking. I know I have omitted much, but I am running out of space.

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My comments in letter of last July still hold true, so I will try not to repeat what I wrote then. You may wish to revisit it and check out how on or off I was with my thoughts today. Our economy continues to muddle along as we grapple with the same issues I wrote about then. We still have a long road to recovery ahead. However, we are making progress, however slight. GNP for the second quarter, announced this morning expanded by a “less than expected” 1.3%. Despite apparent negatives in certain sectors, the Borders bankruptcy is a notable example, we have many positives that seem to fall off the radar. Apple, IBM, Google, Harley Davidson, Aetna, Wyndham, Dow Chemical and Caterpillar provide a few examples of very positive earning results. Apple’s profit doubled and sales jumped 82% in the quarter ending June 30. This company sold 20.3 million iPhones and 9.3 million iPads in one quarter! Harley’s earnings doubled in the last quarter as retail sales of its motorcycles in the U.S. rose for the first time since the fourth quarter of 2006. U.S. factory activity, as gauged by the Institute of Supply Management, rose to 55.3 in June, up from 53.5 in May. Additionally, our government is taking steps to open up bottlenecks that have stifled our economic progress. For example, Federal energy regulators just approved a major rule change that will lead to more big electricity transmission lines getting built in the U.S., (as reported in the WSJ on July 22). The United States Patent and Trademark Office have recently constructed changes under the America Invests Act that could start clearing the application backlog. This change (FYI- the United States is the last developed country to commit to these changes) could open up a flourish of small inventions. (And, some of you still buy the dogma that Democratic administrations bog down our economy with excessive regulations. Ha!).

I will offer a few thoughts on austerity and taxes and then move onto our investment results and summaries of some of the companies in which we have invested.

Austerity

Austerity, of itself is a bad thing. It closes doors, rather than opens them. Austerity brings on recessions and depressions; it reduces tax revenues and an ultimate default on debt. See Russia in 1998, Argentina in 2001 and Indonesia in 1997 for most recent examples. Watch Europe, Greece, the United Kingdom and the United States to follow, IF we do not change course. Radical diets never work. One needs a plan of gradual change in habit for long-term success. The same applies to economic change.

I once knew a man who focused on austerity in his business. He would spend hours pouring over how many days his employees spent on vacation and sick time, and when employees checked in and out of the office. He would dock their pay a few bucks if they took an extra day away from the office, or arrived a bit late. He would put security on the office phones so that he could track personal calls and dock compensation accordingly. I suggested to him that if he spent half the amount of time he spent on his austerity measures on billable work and new business, he would more than increase overall revenue and net profit above the pennies he saved through his austerity measures. Not to mention creating a more positive, creative and cohesive work environment. Austerity focuses on the negative.

Austerity in Government works the same way. We cannot grow our economy, climb out of a recession, or pay off our debts through austerity. We need to focus on growth. Legislation and policy should all support prosperity over austerity.

I also know a businessperson who focused on prosperity instead of austerity. He established overall parameters for his employees, empowered them to accomplish their given responsibilities and gave them the freedom to go about their work. He provided extra vacation and sick days if his employees found them necessary as long as the work was done. The atmosphere at this place of work was fun, positive and productive. Prosperity focuses on the positive and the creative.

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If we want government to work and our country to thrive, we must focus on prosperity, not austerity. We also should elect people to serve in government who believe in the value of government, not its demise. Today, we should focus on job creation, not reductions in our social safety network.

The miracle of the loaves & fishes is one of the most revealing in The New Testament to me. I assume you are familiar with this. It is the only miracle written about in all four gospels. Thus, its importance in Christian theology. In recap, Jesus has preached to a multitude that grows hungry. His apostles inform Him that there is no food available but a few loaves of bread, two fish and that it is impossible to feed this large crowd. In three of the Gospels, Jesus creates additional food via a miracle. In the fourth, the Gospel of John (the Gospel that consistently defines unconditional love), a small lad is discovered in the crowd with the five loaves and two small fish. The small boy represents new thought, new life and the Good News. This small lad hands his bread and fish to Jesus unconditionally and in this act, Christ is able to feed the masses. We as a nation CAN take care of our elderly, our youth and provide health care to every American when we are willing, as was the small lad. This Gospel is a story of prosperity, not austerity. I wish all of those “Christians” in Congress could understand their faith. And, yes, I challenge them in this. There are too many people of “faith” holding elected office and attempting to impose their beliefs, however incorrect they may be, over the nation.

The Blinder leading the Blind

What aggravates me most about the daily debate held in offices, over kitchen tables, in streets, in our daily newspapers, over the internet, other places throughout America and in the Halls of Congress, is how little we all seem to know about economics, history and how committed we all are to our positions, right or wrong, factual or fantasy. Thus, my idea about Certification to Run for Public Office.

I listened to Senator Jon Kyl, of Arizona; speak before our Congress July 21 on CSPAN. He went on, true to script, about how taxing small business will kill the job market. Small business owners, according to Senator Kyl, those netting a million dollars specifically, would not hire employees IF the government raised their taxes. Key words: Small business, jobs, kill and taxes. Politicians are all trained the same, repeat key buzzwords. It does not matter whether the sentences paint a truthful picture as long as the speaker repeats key words consistently: a hypnosis of sorts. I, personally, at this time in our history think that the Democratic line is better for our prosperity. Their script presently, does not offend me as much as does that of the Republicans and Tea Party.

I, unlike Senator Kyl, am a small business owner. My tax rate is the last thing I think about when I consider hiring additional employees. I make my decision to hire based on demand for my product or for a skill-set that I do not possess and need. The decision would be rooted in improving my efficiencies of operations and my net profit. Hiring should increase my net profit and therefore my taxes. So, where is the logic in stating that raising taxes would kill jobs? Our taxes have been low for ten years now. Where are the jobs? Where is the prosperity?

A Brief on Our Income Tax Structure

An editorial by Michael Boskin, economics professor at Stanford University and former Chair of the Council of Economic Advisors under President George H.W. Bush, appeared in the WSJ on July 18. He warns of an ultimate 70% marginal tax rate on those earning as little as \$60,000 in annual income IF Congress allows a tax increase.

The marginal tax rate is not what matters. The effective rate does. No one pays at the marginal rate. Using an example of a California teacher earning \$60,000 in his example, Mr. Boskin writes that her current 45% overall tax rate will rise to 71% by 2016 under Congressional Budget Office’s projections. He writes that her

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marginal tax rate is 25%, that she pays another 15.3% in social security taxes and another 9.5% in California taxes, to arrive at his 45% overall tax rate. (These actually add up to 49.8%). If I were not a tax preparer who knew better, I would blindly accept this editorial by the former Chair of the Council of Economic Advisors. I would be so mad that I would actually put on my three-pointed hat, knickers, gunshot, pick up my firearm and join the Tea Party.

The real story of the teacher earning \$60,000 based on actual tax return is significantly different. Assuming that teacher is single, has classroom expenses of \$1,200 (\$250 of which reduces her income dollar-for-dollar), owns a house and therefore is able to deduct real estate taxes of \$4,500, and mortgage interest of \$7,663, contributes \$5,000 to her 403B retirement account, and makes \$800 in charitable donations. Her Social Security contribution is only 6.2% and her Medicare contribution is only 1.45%, or a combined 7.65% of \$60,000, NOT 15.3% as Mr. Boskin writes in his disingenuous editorial. Her federal EFFECTIVE tax rate, AFTER deductions, exemptions, and adjustments to income is only 8.02%, NOT the 25% rate Mr. Boskin proclaims. Her California tax is \$1,651 or only 2.75% of her gross wages, NOT the 9.5% rate Mr. Boskin states.

All told, this teacher pays combined taxes equal to 18.4% of her gross wages, nothing close to the 45% that Mr. Boskin prints in his letter. This kind of slight of hand by someone who proclaims some sort of authority and legitimacy is deplorable!

We have a progressive tax rate structure in this country. It is this progressive structure that provides fairness to our tax system. We all pay taxes at the same rate for all income earned within each progressive bracket. As our income increases, so does the rate. This is a flat-tax system for all those within each prescribed bracket. Using the married filing jointly tax rates, for example, we find that we all pay zero taxes on our first \$16,750 of income. We all pay the same tax rate of only 15% on our income between 16,751 and \$68,000. The progression continues so that we all pay the same rate of 25% on income between \$68,001 and \$137,300. Then we all pay the same rate of 28% on income between \$137,300 and \$209,250. Continuing on, we all pay the same rate of 33% on income between \$209,250 and \$373,650. Have I moved beyond the taxable income of most of us by now? Ok, to continue, the next and final bracket for income over \$373,651 is 35% for all of us.

According to Andrew Ross Sorkin of the NY Times, the top 400 earners in the United States earn an average of \$270 million annually! They all pay zero taxes on their first \$16,750 of income and only 15% on income between \$16,751 and \$68,000 and so on and so forth right up to the top of the progressive ladder. They pay no more or less than any other American in their same marginal tax bracket. The effective tax rate for this group of Americans is 18.1% according to an IRS study conducted in 2010.

This progressive system works effectively because we are all treated equally. Those of us, who are fortunate enough to make more than others, have a greater ability to chip in a little more. We all benefit from the fruits of good government: good roads, airports, infrastructure, homeland security, our military, etc., etc. One might say those who earn more have more to lose when our government does not fund these common interests. Beyond the fairness of the progressive system, each of us is able to reduce our taxable income through a series of adjustments, deductions and credits that further reduce our final tax bill. In the end, our effective tax rate always falls far below our marginal rate.

I love this system and cringe whenever I hear a member of the flat tax crowd chime in about how complicated our tax system is today and how a flat tax will cure all ills. Computers today make the management of this system all the easier.

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Two problems that I do have with our present system are the Alternative Minimum Tax and the avoidance of taxes by hedge fund operators. The Alternative Minimum Tax must be adjusted to inflation so that the bracket creep that most Americans have experienced over the past twenty years is reset to the original AMT rates. Hedge fund managers must be taxed at rates just like the rest of us, so when their income increases, they pay the same freight as the rest of us. Furthermore, their earnings should be subject to Social Security and Medicare taxes, just like the rest of us. These two would be a part of any U.S. Budget compromise in my world.

The tax facts for the small business self-employed American, who nets \$1,000,000, cited by Senator Kyl, are as follows. We give him moderate, itemized deductions of \$113,481, for his income. His marginal tax rate is 35%. He paid \$13,243 in Social Security Taxes, \$26,872 in Medicare Taxes, \$271,030 in Federal Income Taxes, \$71,581 in New Jersey Income Taxes. The combined taxes on his \$1 million of income are \$382,726. His effective tax rate is 38.3%, including his Social Security and Medicare contributions and state taxes. His net take home income AFTER all income taxes is \$617,274. His take home pay rate is 61.7%. This is almost the exact opposite of the result of applying Mr. Boskin's formula for computing tax rates. Mr. Boskin would arrive at a tax rate of 60.55% instead of 38.3%. How are we ever to arrive at acceptable solutions to our fiscal and economic issues in this country IF we are not even on the same page to start?

When you put this all together, what does that spell?

Senator Kyl states in his Congressional dissertation that there are only 319,000 millionaires and billionaires in the United States today and that increasing their taxes would prolong our recession. Thus, the only remedy for our budgetary dilemma is to cut expenses: In short, austerity. The proponents of the Laffer Curve Crowd (and I was one once upon a time, until I read David Stockman's book published after he left the job of Budget Director in the Reagan Administration and witnessed our national debt soar under President Reagan), have been debunked over and over again. Yet, the cry comes up continually from a certain crowd that lower tax rates bring in more revenue. Lawrence B. Linsey, director of the National Economic Council in the Bush Administration, states "the 1981 Reagan tax cuts left revenues about 30% below where they would have been if rates hadn't changed." The Congressional Budget Office estimated that the Bush tax cuts cost our country \$1.5 trillion in lost revenue over the past ten years. Laffer himself, has stated, according to an article published in Bloomberg Businessweek that, "The Laffer Curve is really a pedagogic device. It's not something to be too literal." Yet, our present crop of Republicans keeps harping on tax reductions as they drive our economy into recession (again).

Federal tax revenues in 2011, expected to fall to only 14.4% of our Gross Domestic Product, will be at their lowest level in sixty-one years! We spend close to 25% of our GDP. The math does not add up. With industry operating at 77 percent of capacity, tax cuts, aimed at stimulating investment and production, are the wrong medicine. "It doesn't make much sense to increase the supply of good and services at a time of excess capacity," says economist Bruce Bartlett, a veteran of the Reagan White House and the Treasury Department under George H.W. Bush, as reported in Bloomberg.

Despite this, the present Republican Party line remains "Cut, Cap and Balance." The House of Representatives recently passed their CCB bill that calls for an immediate reduction in government spending from 25% to 15%: Austerity on steroids. Our national debt swelled by \$7 trillion under the previous Republican administration. Now, while our nation crawls out of the deepest recession since The Great Depression, this becomes an issue to this crowd. Our national debt ceiling was raised seventeen times under the Reagan Administration, four times under Clinton and seven times under G.W. Bush. The expansion of our debt ceiling began aggressively under President Reagan. It was about \$1.17 trillion in the beginning of his term

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in 1980 and rose to \$4.1 trillion by 1990. The debt ceiling will naturally grow as our economy expands and our population ages. Raise the damn ceiling and get back to work on assisting our economy to expand. Oh, and pass the FAA Funding legislation before you leave for your August vacation, you austerity morons!

We have the greatest disparity of wealth in our country today than ever before in our history. This has widened demonstratively between the races over the past five years, according to a recently published study by the Pew Research Center. I have written about this for several years now. No nation can sustain a wide disparity of wealth for long before a demise and revolt. Individual tax rates today are the lowest for the richest Americans than they have been in all but five of the last seventy-nine years, according to Nobel laureate, Joseph Stiglitz. Furthermore, corporate tax rates, in the 1950's, accounted for an average of 27.6% of all federal revenues. Today this is in the 8.9% range. This talk about our high corporate rates lacks historical perspective. Note, that as with our personal rates, most corporations DO NOT pay taxes at the marginal 35% rate.

The Tea Party line, as espoused by Texas Tea Party founder, Phillip Dennis, on MSNBC recently, runs like this. Fifty percent of Americans do not pay income taxes, while the top 1% earners pay 50% of all income taxes. I assume that he took his "facts" from The Tax Foundation since they promote this stream of thought. According to the Tea Party script, all Americans should pay their fair share of taxes and thus no tax increases should be legislated for the higher earners. According to the IRS data as cited by the Wall Street Journals' senior economics writer, Stephen Moore, the median household income in America in 2008 (I guess this is the most recent data he could get his hands on. It cannot be too much higher today) is \$35,000 and these households paid about 4% of their income in federal income taxes. The top 10% of American earners (those with taxable income above \$114,000) kick in about 19% of their income. Michael Franc, of National Review.com, states that the top half of earners pay 38% of total federal taxes. His facts are a bit different from that of Mr. Dennis. However, even if 50% of Americans pay no income taxes, as Mr. Dennis stated, how does anyone exist in America today on a household income of only \$35,000? These folks must spend all of the \$35,000 they earn just to exist. This certainly is simulative. This keeps their local small businesses operating. These low earners pay real estate taxes, or rent. They pay social security taxes on their meager earnings and they most certainly pay sales taxes. Therefore, to stand there and state that the "little guys" do not pay their fair share is a blatant falsehood!

In the last year, according to Andrew Leonard in Salon.com, corporate profits in America have rebounded to record highs and real national income has increased to \$528 billion. Only 1% of this growth has gone to workers.

Why do we need to waste any more time on this matter? Go to where the money is. Willie Sutton, where are you? Tax it, pay down our debt, set our country on firmer financial footings and move into the future. All Americans will benefit.

Our National Moral Compass

Over the past quarter, I caught two features on television that stick in my mind. The first was about a resident of Arizona who was receiving cancer treatments, under Medicaid, from a local clinic. Arizonians voted to cutoff the funding to this clinic and as a result, despite efforts of the local doctors to keep it operating, it closed. During the interview on the potential ramifications of the closing on this American's life, he stated to the reporter, that he would die once he could no longer receive his treatments. Before the feature was aired on national TV, this American died for lack of medical care.

The second was an Ohioan who was arrested because she sent her child to a school outside her residing district. The school in her district was failing and dangerous. Therefore, for the safety and future of her

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child, she used the address of a relative in order to enroll her child in a better and safer school. She was placed in jail. Her child placed back in the failing school.

Is this the country that you can proudly say is your America? How is austerity going to help with these matters? If we are all created equal, then we all had better be given equal opportunity to live and thrive in America. If public policy doesn't support prosperity of all Americans, then I am against it. We will be a more prosperous nation when all can prosper in America. The success of our investment requires a prosperous America.

Our Investments

Our accounts for the year are virtually flat, up a moderate 1.7% on average, through June 30, as our technology investments took a bit of beating towards the end of the quarter. However, for the two-year period ending June 30, our accounts are up an average of over 45%, or about 23% annually.

Your progress reports included with this commentary reflect changes since December 31, 2010 through June 30, 2011 and those over the past two years beginning with June 30, 2009. We expect our returns to rebound, as the prevailing uncertainty abates and our economy expands, however slowly. We do not see a bear market on the horizon, as the Fed's policy is accommodating, interest rates are not rising, inflation is flat, rapid earnings growth is not in the near future and equities (for the most part) are not overvalued. None of these primary causes of a bear market is present or apparent. The Value line index of 1,700 stocks posts a PE of 16, down from 17 a year ago and well under its market high of 19.7 on 7/13/07. The median price appreciation potential of this index is 55% today, well under its high of 35% on 7/13/07 and its dividend yield sits at 2% versus the 1.6% of its all time high on 7/13/07. We have been accumulating shares in those companies we expect will find earnings growth advancing above the market averages. The Institute of Supply Management's manufacturing index survey of purchasing managers July fell to 50.9% from 55.3% last month, notwithstanding. We have continued sales of underperforming mutual funds, such as CGM Focus, and have moved the proceeds into our favorite individual stocks during periods of weakness. I'll write about a few here.

EZCHIP (EZCH) is a long-time favorite of ours. I originally bought EZCH, when it was named Lanoptics, in 2000. In simple terms, EZChip produces a router on a chip, or the closest thing to it, that increases the speed of data, voice and image over the internet. We expected then, that the demand for efficient transmission over the internet would bring the world to EZChips' door. Our hopes proved out as EZChip is now into its fifth generation network processor, each new generation operating with more efficiencies and less power requirements than the previous. Designed to provide maximum efficiencies and ease of incorporation into up and running systems, EZChip products are poised to ride the wave of increased utilization of the internet worldwide. We've worked hard to add EZCH into all of our accounts whenever the markets pullback. Overall, we hold an accumulative 180% gain in our EZChip positions. While the stock trades at \$31.55 today, we look forward to a price in the \$50 range within three years. Of course, I make no promises, but this is a reasonable bet.

Dragonwave (DRWI) provides microwave backhaul to the internet. This is the connection between mobile communication towers and the core of the network. The demand for mobile connectivity has made the previous infrastructure obsolete. Upgrading is essential. Fiber (think Corning) and microwave (think Dragonwave) are the only two feasible means to provide the backhaul bandwidth. Microwave will be used where fiber is impractical. Microwave costs less than stringing fiber and has zero recurring costs. We believe that DRWI is the "best-of-breed" in this sector and the only microwave provider with a solid proven record of accomplishment in a major deployment. Clearwires' network uses Dragonwave. With the stock trading down in the \$5 range, having reached a Fifty-two week high of \$9.20 earlier in the year, we think the odds favor a higher price over time.

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QuickLogic (QUIK) is a relatively small start-up that focuses on “the ultra high volume mobile handheld battery powered market,” writes an analyst who recently visited with company executives. “Patient investors, who understand there will be ‘pulls and tugs’ as small emerging companies go through product launches and ramps should continue to be well rewarded in 2011 and beyond,” he continues. Its major product presently is its VEE/DPO chip for mobile phones and tablets. Quicklogic is also a provider of data cards. They presently are developing a new type of data card that serves double duty as a wireless connector for PCs. This wireless SD card will replace a portion of the market currently served by USB devices, as it facilitates mobile connectivity with the cellular carrier. Business should gravitate to the card with dual capabilities. QUIK’s trading range over the past year has moved from a low of \$2.56 to a high of \$7.20. The stock traded at \$3.11 on June 29 and closed at \$4.08 on July 27. The ride has been volatile and may continue so, but in the end, should reward us. Our current gains sit at 32%. We began accumulating QUIK in 2007.

I could go on with others, but I think these three give you the jest of the kind of investments we are making for you. Over the years, we have worked to find companies within the major themes of water, telecommunications with emphasis on wireless, and power sources. Your portfolio will reflect positions in each.

Please give us a call should you wish to discuss your investments or your overall financial plan. Thank you once again for your continued business and confidence. We look forward to the interesting months ahead.

Sincerely,
Michael J. Porro, CFP, EA
July 29, 2011

I generally like President Obama’s thinking
and lean more towards
the Democratic Party line
presently than
that of the Republicans.
However, this cartoon is funny
and the corporate jet idea
may not have come from
the brightest light in the room.