



Multi-Cap Equity Focus – Ray Hofshi

Thus far this year the stock market is following the same general pattern as last year. That pattern produced a new post recession high in the first quarter, with a correction in the second quarter that gave most of the gain back. This year the correction was rational because it was based on the world economy slowing significantly below projected growth. The spiking of oil to \$113 per barrel acted as a major new tax on consumers, reducing the amount of money that could be spent on non energy purchases. Secondly, the Japanese earthquake and tsunami disturbed automobile and electronics supply chains around the world, thereby lowering product availability. Both of the above factors lowered US GDP growth to roughly last year's level. The economy continues to move forward, but at a painfully slow rate.

During the Second Quarter of 2011, the average of all Westport Resources accounts appreciated by 0.3 percent after commissions. Over the same time period, the S&P 500 index increased by 0.4 percent. Thus, on a year-to-date basis, the accounts have appreciated by 9.0 percent, while the S&P 500 index has increased by 4.9 percent.

Over the last twelve months, Westport Resources accounts have appreciated by 29.3 percent (after commissions), while the S&P 500 index has increased by 21.7 percent.

During the Second Quarter we traded some of our AT&T for Hess Oil and thereby positioned our accounts a bit more aggressively. Our June calls on Manitowoc expired "out of the money". The calls improved our account performance by roughly 0.5 percent. By the end of the Second Quarter, our average cash position was roughly 7.5 percent.

TIMING MODEL

The Timing model improved in the Second Quarter. It moved up by five points to a strong bullish reading of 65%. Thus, it predicts a 65% chance of market appreciation and a 35% chance of market decline, over the next 3-6 months.

MARKET OUTLOOK

As mentioned above, during the first half of this year, the US economy slowed to an annual GDP growth rate of about 2 percent. This was a disappointment when compared to an expected growth of 3.0 – 3.5 percent. If, in fact, the slowdown is due to the economic disruptions in Japan and the recent spike of commodity prices, then there is hope that the slowdown will be short lived. Commodity prices have eased. In particular, oil prices have eased from \$113 per barrel to roughly \$95 per barrel. In addition, the automobile parts and electronics production in Japan is

almost back to pre – tsunami levels.

The monetary policy of the Federal Reserve continues to be stimulative. Short-term interest rates are close to zero, and thirty year fixed rate mortgages are well below five percent. Bank balance sheets continue to improve. While the housing market is about the same as last year (i.e. poor), it is maintaining itself without last year's eight thousand dollar tax credit. There is some hope that this Summer's house buying season will show some improvement.

I do not view the present slowdown as leading to a new recession. I, therefore, believe that the present market decline should be viewed as a correction within a potentially long-term Bull Market. I expect US GDP growth to increase in the second half of the year. I am assuming, of course, that our Congress is not so crazy as to refuse to lift the debt ceiling and cause a Treasury bond default. I am also assuming that there is no default of a European nation. Even our great nation needs to learn to live within its means. But the budget deficits need to be lowered gradually over time in order to avoid another recession (or worse).

Since the economy continues to grow, I see no reason to change my original forecast that the stock market will advance by roughly 8 – 12 percent during 2011.

Sincerely yours,

Ray Hofshi