



April 10, 2011- Multi-Cap Equity Focus

We have now reached the second anniversary of the market bottom caused by the Great Recession. I am happy to report that our accounts are back to their pre – recession highs.

During the first quarter of 2011, the Bull Market continued its upward climb. The market indices powered higher in January and February, but gave back some of their gains in March.

During the first quarter of 2011, the average of all Westport Resources accounts appreciated by 8.7 percent (after commissions). Over the same time period, the S&P 500 index increased by 4.5 percent.

Over the last twelve months, the Westport Resources accounts have appreciated by 22.1 percent (after commissions), while the S&P 500 index has increased by 12.6 percent.

Finally, since January 1, 2008, the Westport Resources accounts have appreciated by 8.5 percent (after commissions), while the S&P 500 index has declined by 11.1 percent.

Over the last ten years, the compound annual appreciation of Westport Resources managed portfolios is 9.1 percent. The corresponding figure for the S&P 500 index is a decline of 0.6 percent per year. Thus, over the last ten years, we have beaten the S&P 500 index by 9.7 percentage points per year. I am obviously proud of that performance, as it is one of the best in the industry. These figures include the re-investment of dividends and interest and are net after commissions – but do not include advisory fees. The S&P 500 figures do not include the re-investment of dividends or the cost of commissions.

#### TIMING MODEL

The Timing Model weakened a bit during the first quarter. It fell to a still bullish reading of 60%. Thus, it predicts a 60% chance of market appreciation and a 40% chance of a market decline over the next 3 – 6 months.

## ECONOMIC OUTLOOK

Short-term interest rates have been kept close to zero for a couple of years. This has allowed banks and other financial institutions to maintain modest profitability while writing off their toxic assets. The banks have now reached the point where the Fed is permitting most of them to increase their dividend distributions. This is an indication that banks have generally met their new capital requirements, and that money is becoming more readily available for business growth. Unfortunately, even with historically low mortgage rates, the housing market continues to be bad. The American love affair with home ownership may have fundamentally changed. There is less demand for homes, than was predicted by most economic models.

As the economic growth rate has increased around the world, commodity prices have continued to increase. The price of oil is a particular concern because of its strong influence on the economy. The new turmoil in the Middle East has compounded the problem by adding a risk factor to the price of oil.

The consumer environment is improving. The most important improvement is that economic growth (i.e. GDP growth @ 3 – 3.5%) has increased to the point that it is now creating a significant number of new jobs. The unemployment rate has come down to 8.9 percent and more people are finding work. Those who are working, are less worried about losing their job and are therefore spending a bit more money. This good news is being offset somewhat by the negative effect of food and gasoline inflation.

One can't talk about our economic outlook, without considering what is going on in Japan. As you know, Japan has gone through a major earthquake, a terrible tsunami, and a major nuclear accident. Almost twenty thousand people have died, and there is inadequate power for many of the countries factories. One would think that this level of destruction, in the third largest economy of the world, would cause concern about future economic growth and profit. The stock market, however, does not appear to be concerned.

I think part of the problem is that the business interactions between all of the world's economies are simply too complex to figure out. My gut feeling is that the problems in Japan will create short – term dislocations which may hurt global profits, somewhat, over the next six months. Over the longer term, the reconstruction of Japan should add stimulus to the world economy and therefore add to corporate profitability.

Sincerely yours,

Ray Hofshi