



During the third quarter of 2011, stock markets all over the world had significant declines. I believe that part of the decline was related to concern over slowing economic growth, some of which resulted from the Japanese tsunami. Just as important, however, was investor concern over a lack of coherent economic policy actions in the US and Europe. The US government nearly defaulted over what should have been the easy policy action of raising the debt ceiling. The Europeans are moving too slowly in resolving the more difficult problem of a potential Greek bond default. Politics has gotten in the way of good economic policy.

During the third quarter, the average of all Westport Resources accounts declined by 17.2 percent after all fees and commissions. Over the same time period, the S&P 500 index declined by 10.8 percent and the Value Line Geometric index declined by 19.5 percent. Thus, over the past twelve months, the accounts have declined by 5.8 percent, while the S&P 500 and Value Line indices declined by 1.6 and 8.9 percent respectively.

Since January 1, 2010, accounts have appreciated by 4.3 percent (after all fees and commissions), while the S&P 500 index has increased by 1.4 percent. The Value Line index has declined by 2.6 percent over the same time period.

The primary portfolio action taken during the third quarter was the replacement of ATT with Hess Oil. At the end of the third quarter, our average cash position was roughly 7 percent.

#### TIMING MODEL

The Timing model weakened during the third quarter. It moved down by ten points to a weak bullish reading of 55%. Thus, it predicts a 55% chance of market appreciation and a 45% chance of a decline over the next 3-6 months.

#### MARKET OUTLOOK & STRATEGY

The most recently revised economic numbers, indicate that the U.S. economy grew at an annual rate of about one percent over the first half of 2011. This was obviously disappointing when compared to the expected growth of 3 to 3.5 percent forecast by economists for 2011. The more important reason for the market decline, in my judgment, has been the loss of confidence that the U.S. and European governments can appropriately deal with any future shocks to the world economy. The most likely future shock, at this point in time, is the default of the Greek government's debt (i.e. their equivalent of our Treasury bonds).

Not all is negative however. Slower world-wide growth has led to a major decline in essentially all commodity prices. In particular, lower crude oil and grain prices should produce lower retail energy and food prices in the near term. Lower retail gasoline and food prices will give the consumer a bit more discretionary spending power. Similarly, lower input energy and commodity prices will give corporations better profit margins or allow them to cut prices.

The Federal Reserve has done its job, and residential mortgage rates are now 3.5 to 4 percent. A good deal of re-financing is going on which is lowering the cost of home ownership. Similarly, most corporations have been re-financing their debt at lower rates, thereby lowering their cost of doing business. It seems to me, that without any additional government stimulus, the U.S. economy wants to grow at a roughly 1 to 3 percent annual rate. Japan, China, India, and most other Asian nations are presently growing at a faster rate. Only Europe is flirting with recession.

The question I ask myself is whether a Greek debt default will be a sufficient shock to lower my slow growth projection for the U.S. economy. Everything that I have read thus far indicates that a "controlled" Greek debt default will produce much smaller bank losses, compared to the major losses caused by the U.S. mortgage debt crises. There is no surprise in this case. The European Union has had months to figure out how to best isolate a Greek default.

It seems to me highly unlikely that a Greek default will derail the slow recovery that is taking place in the U.S. While we are not creating enough jobs to significantly improve the unemployment rate, we are creating enough jobs (and money supply) to slowly grow the U.S. economy. Upward (or downward) momentum of the U.S. economy is not easy to change. Most of the rest of the world should also continue to grow. Thus, U.S. corporations should continue to have modest earnings growth. If I am correct, the stock market is extremely cheap after its recent decline. Psychology, on the other hand, can change quickly. When it does, we should see significantly higher stock prices in the not to distant future.

Sincerely yours,

Ray Hofshi