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Philosophy

Long term success in stock market investing is the pursuit of two objectives: superior capital appreciation and higher-than-average dividend income. Evidence has shown that these two objectives are not mutually exclusive. Boyd Watterson believes that investing in low-multiple, high-dividend paying stocks can be a consistently rewarding approach. Our philosophy emphasizes solid companies and creating a portfolio that in aggregate has a below-market price/earnings ratio and above-market dividend income. The equity approach also seeks to take advantage of the changing dynamics in the economy and financial markets. Our investment decisions are based on long-term projections of economic growth and earnings cycles. The portfolio will seek to limit exposure to companies that have short-term earnings cycles in favor of investments with consistent earnings growth and a solid management team. This long-term orientation is based on the belief that above-average returns can be achieved through superior insight into the sector and security selection process.

Process

Our approach is to buy high-quality companies and hold them until the valuation or fundamentals prompt action. An investment will be sold or reduced if there is a change in our market outlook or sectors are reallocated. Sector management is primarily a function of the firm's economic and market outlook. Our top-down approach uses the expected level of interest rates as a determining factor in assessing equity market multiples. The level of market P/Es will determine an aggressive or defensive posture in our sector allocations. In addition, a 12-month projection of earnings will influence sector commitment. It is the firm's belief that interest rates and earnings growth predictions will enhance long-term portfolio returns. Investments will be made in companies that are market leaders in their respective industries, as well as companies that are moving into the leadership position. These companies have the ability to gain market share and grow faster than their industry peers. The result is a portfolio of companies that are market leaders, have improving fundamentals, and have a high degree of predictability relative to their peers and to the market.

Profile

Our investment process is a team approach. Each member of the team has a considerable number of years of investment experience in equity markets and has therefore built up a thorough knowledge of the core shares in our universe. Team responsibilities are assigned by region and by industry. Ideas are discussed and presented to a senior portfolio manager. Analysts typically focus on one sector at a time; reviewing the stocks held in the portfolio to ensure that we own shares that represent the best combination of growth and value. Sector reviews take an average of two weeks and each sector is reviewed at least twice a year.

Composite Summary

Composite Assets	\$5.1 million
Composite Accounts	11
Research Method	Top-Down
Target Holdings	40 - 50
Benchmark	S&P 500/Citigroup Growth

Style / Market Cap.

Large	Value	Core	Growth
	Mid		
	Small		

Value Core Growth

Portfolio Composition

	Composite*	Benchmark**
Current Yield	1.98%	1.80%
Price / Earnings	12.35x	14.50x
Beta	0.99	1.00
Number of Holdings	38	500
Internal Growth	18.75%	17.91%
Return on Equity	26.41%	22.58%

Sector Allocation

	Composite*	Benchmark**
Energy	16.8%	- %
Materials	-	-
Industrials	14.7	-
Consumer Discretionary	16.6	-
Consumer Staples	5.9	-
Health Care	15.8	-
Financials	11.6	-
Information Technology	18.5	-
Telecommunications Services	-	-
Utilities	-	-

Top Ten Holdings

	Composite*	Composite*
Chevron Corporation	5.7%	Medco Health Solutions Inc 3.6%
Visa Inc Cl-A Shares	4.0	Cisco Systems Inc 3.4
General Electric Corp	3.6	Microsoft Corp 3.3
Google Inc Class A	3.6	EBAY Inc 3.3
Johnson & Johnson	3.6	PepsiCo Inc 3.2

* Based on the model portfolio. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities identified herein will be a part of the portfolio at