

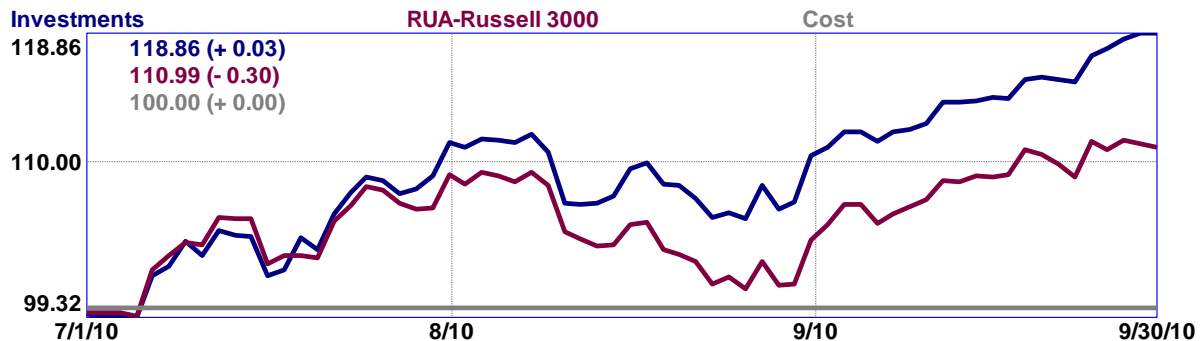
October 6, 2010



Clients,

Returns

The third quarter had exceptional returns with an annual rate of 99% on investments and 81% when including cash. The Russell 3000 had an annual rate of 51%.



The New York Times reported on 9/24/2010 that the Yale Endowment had a return of 8.9% for the past year, underperforming the Harvard Endowment which had an 11% return. The comparable period return for Wenzel Analytics accounts was 17.8%.

Interpretations

To evaluate the past, look at your own account(s). To evaluate the likely future, look at the Wenzel Analytics book of business. Since each account is structured differently, performance will vary between accounts. In making decisions regarding the future, those individual variations related to particular accounts will not be as important as the patterns for all accounts. Have you ever spent an evening playing cards and one player was way ahead or behind for a while, but then noted at the end that the scores were incredibly close?

Even if I don't always mail out the Performance Summary for my book of business, I encourage you to go to the website and compare it to your own results. I would encourage you to share it with friends and relatives, and would be very suspect of any money manager who doesn't disclose overall returns. Most firms fold the losing mutual funds into the winning ones, and then only report the returns from winning funds.

My experience is that excess returns typically bring excess attrition. In hindsight, some of those who left the market (and Wenzel Analytics) were prescient – most were not. Sometimes it is hard to believe that good fortune can last. Of course we can't continue to have quarters like the last one, but we can continue to make good gains.

What particularly concerns me is when people become anxious after taking in politically motivated media and press, and the fact that an increasing proportion of the press and investment newsletters are controlled by politically motivated dollars. It is a mistake to let political ideologies affect investment acumen. The antipathy towards the current administration is causing many investors to fear putting money into the markets. This, of course, creates a self-fulfilling prophecy. What is particularly ironic is that many of the same people who are in a panic over high levels of government debt, fearing a collapse, are buying what? Yes, government debt in the form of Treasuries. If the government is going to collapse from all the debt, why would you buy the debt?

An alternative to mutual funds.

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Market Perspectives

I see the market as due for a correction in terms of a week or two, then moving higher the next quarter. Will it unfold the way I have mapped it out in my mind? Maybe somewhat and maybe not. But the pictures below underlie the way I foresee playing our cards until I have reason to think otherwise.

For printable charts with lines and notes, I did some experimenting using charting programs new to me. I apologize for not spending the time to make the formats consistent and give a more polished look. The first chart from Stockfinder shows the S&P 500 for the past ten years. You can see the range-bound trading. I'm looking for a general repeat beginning in 2008 of the pattern that took place between 2000 and 2008. I have drawn Decline 1 and Decline 2. These declines have been followed by early Recovery 1 and 2. We then have periods of consolidation in 2004 and 2010. The 2004 period was a flag or pennant. The 2010 consolidation has been in the form of head and shoulders. I'm now looking for a recovery similar to the Recovery 3 line taking us to the Top Range in perhaps three years with a similar slope of 8% returns.



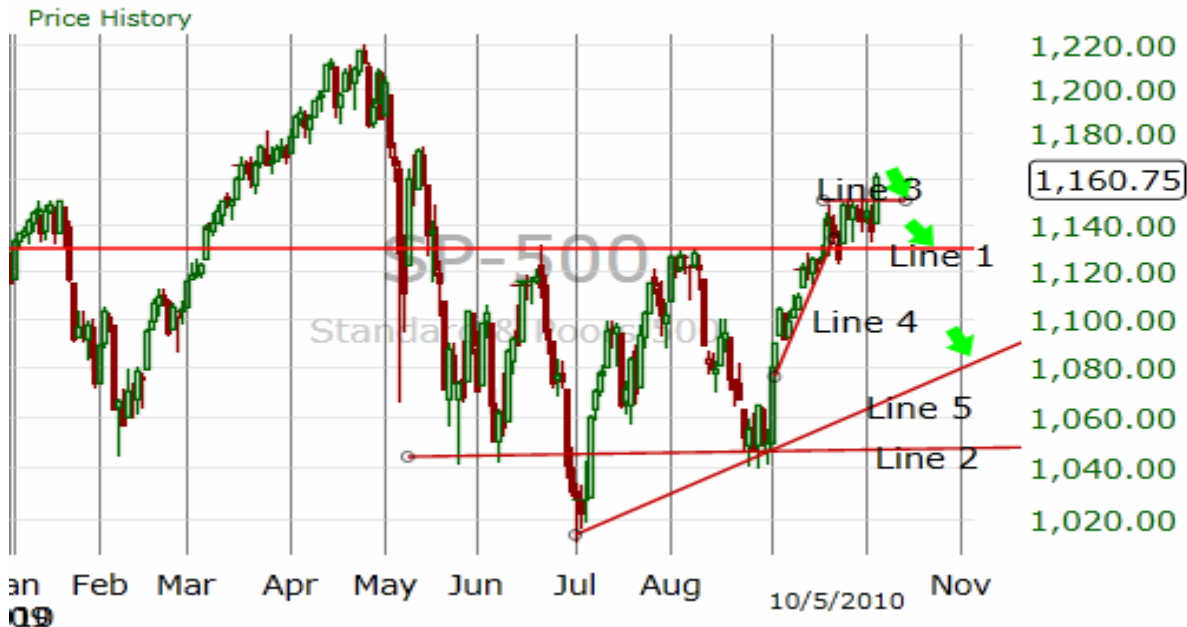
The next chart of the domestic market zooms in to 2010 with daily rather than weekly bars and using FreeStockCharts.com. (I recommend it in addition to www.finance.yahoo.com if you want to do your own charting. It does real-time charting down to the minute – for free. The primary limitation is that it doesn't import lists of stocks. However, I have been able to do that by using a HotKeys script.)

Lines 1 and 2 are the necklines of what have been head and shoulders patterns. (The July head is upside down.) Breaking above Line 1 for the last ten days is a bullish signal. However, we have not had even a modest correction or retracement since the first of September (Line 4). I look for the market to return to the arrow on Line 3, most likely to the arrow on Line 1, and would not be surprised to see it return to the arrow on Line 5.

SP-500 (Standard & Poors 500)

Oct 5 2010 12:00:00

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I think the real strength going forward is going to be in emerging markets and commodity related stocks or ETFs.

Tax Gift Planning

With the likelihood of changes in tax rates, those of you with taxable accounts with me or elsewhere should be reviewing unrealized gains and losses, as well as any tax losses carried forward on your Schedule D. The *AII Journal* for September had an excellent article on capital gains.

<http://www.aaii.com/journal/article/capital-pains-rules-for-capital-losses> I posted a comment at the end of the article about it being a waste of assets to allow tax losses to be carried forward year after year.

It is also a good time to review gifting of appreciated assets. Contact me if you want to know how to gift to your favorite charity at no cost to you after tax considerations.

Scottrade

A year or so ago I wrote about my frustration with the new Scottrade advisor trading platform. I have done some experimenting with Interactive Brokers by transferring some personal accounts. While they have some nice features, most of the experience is not anything I would wish on you. Meanwhile, Scottrade has made improvements to their platform. In addition, I have written a HotKeys script that allows me to enter a column of eight orders with a single paste. This not only saves a lot of time, but helps in accuracy.

New Monitor

I recently added an additional 27" monitor and thought I would show you the contrast between my current workspace and earlier equipment. I now work with three screens on the desktop computer, the laptop for realtime charts during the day, and the netbook when needed or to take out of the office.

My first computer was an Apple II, but then I bought five Osbornes for the business I had at the time. I even took one to my office at Honeywell, which created a stir because if you didn't need one

of the Honeywell bigger computers, what would you need a computer for? A couple months later my boss offered to pay for it. You can see why I do better on my own.

So you can see my workspace and your reports in the background. The screen on the Osborne still lit up, but it wouldn't boot. And where did I find the Osborne? Yes, my garage has abundance.



Thanks for your business.