

Introducing An Attractive Alternative To Low-Rate Bank Saving Accounts, CDs, And Money Market Funds

If you are among the millions of people who have money set aside in a bank savings account, CD, or money market mutual fund and you're unhappy with the current low yields, we're pleased to offer a new and very attractive alternative: The Midwest Investment Management "Preferred Choice Funds Cash Alternative Service".

We believe these carefully developed managed portfolios can satisfy the need for *enhanced fixed-income returns*, compared to bank saving accounts, CDs, or money market funds, most of which are delivering interest rates or dividends at, or just above, zero.

Little hope for change

Since late-2008, the Federal Reserve Board has maintained the Fed funds rate (the interest rate that banks charge other banks on overnight loans—an important benchmark for many other interest rates) at 0% to 0.25%. At every meeting since, the Fed indicated it would keep the Fed funds rate near zero for an "extended period". At the meeting this past August, the Fed indicated it would maintain the rate "at least through mid-2013".

In September, the website *bankrate.com* reported that average money market account yields were about 0.15%. Average one-year CDs were yielding about 0.41% APY; average three-year CD yields were 0.82%; and average five-year CD yields were 1.42%. Retirees and other people who rely on a "reasonable" return from these cash accounts have been especially hard hit by these low rates.

"Measured in terms of yield and return today, cash investors are faced with historic low returns and there is no sign of a reprieve," said Managing Director Keith A. Vargo. "It has become painfully clear to savers that low rates may be here to stay for a long time."



Keith Vargo

Our alternative

"With this new service, each client's portfolio is built on a foundation of five carefully selected fixed-income mutual funds," Vargo added. "Each fund has a short-duration strategy, typically 18 months to 4 ½ years, for reduced volatility and limited interest rate risks, while maintaining a favorable spectrum of risk and reward."

"The short duration also allows for reinvestment of maturing bonds at future prevailing rates," Vargo stated

"When people have cash they want to hold for six months or longer, we suggest this service," said Partner Elmer L. (Al) Meszaros. "Our objective is to generate an annual return of 1% to 3% above that of bank CD's or money market funds."



Al Meszaros

"One particular fund we selected for this service has not registered a down year since 1984," Meszaros noted. "The four other bond funds earned positive returns in each of the past ten years and declined only slightly in the very worst interest rate climates of 1994 and 1999."

Additional features

- This service is available to our clients without any mutual fund sales charges and without a large minimum investment typically required for certain bond funds.
- The minimum account size for this portfolio is a new deposit of \$50,000.
- The funds selected for this portfolio had returns ranging from 1.57% to 4.62%, with a blended rate of 3.01% for the first half of 2011.
- We can create a customized portfolio to meet a client's tolerance for fixed-income risk. For example, the shortest durations would be suitable for a very conservative investor.

Fixed income considerations

While past performance is no guarantee of future results, historic volatility of the funds we selected has been low. The funds are not insured and their net asset value may fluctuate slightly in a direction opposite to interest rates. Therefore, over a specific time period, there might be some price risk.



Utilizing our "Preferred Choice Funds Cash Alternative Service" for your longer-term cash balances is easy and we can assist with the details. For more information, we invite you to contact any of our Partners or Managing Directors listed on page 4.

"When people have cash they want to hold... we suggest this service."

"One particular fund... has not registered a down year since 1984."

Why Today's "Global Economy" Creates A New Set Of Challenges For Investors

By Roger I. McNamara, CFA, Analyst

The closing days of September were marked in Northeast Ohio by the unmistakable advance of autumn weather and around the world by a continuation of extreme volatility in market share prices of common stocks—on both the U.S. and overseas trading floors. As the third quarter drove to a close, the absolute lows of early August had not been penetrated and the broad market indexes are little changed from where they stood one year ago.

We believe reasonable grounds do exist for hope that the midsummer price lows will provide durable support as we move through the final quarter of the year. Volatility, however, will remain high.

Still, we should remember that from their best levels of last spring, stock prices and market averages were, at one point, lower by roughly 20%, and will likely finish the third quarter 12%-15% below these highs.

"Insulating" client portfolios

Eternal stock market inscrutability notwithstanding, drops of the magnitudes just cited are always accompanied by a multitude of publicly expressed explanations.

For example, events that occurred far from U.S. shorelines—such as the tragic Japanese earthquake and sovereign European nations teetering on the brink of solvency—have routinely been cited, frequently enough that our clients may reasonably ask if steps were taken to insulate their equity holdings from those and other external events.

The immediate answer is "no." Not because we don't want to, but because we are unable to.

Factors beyond control

A unifying theme—one stretching across business and market cycles—is the interlocked nature of today's global economy.

Cross-border trade patterns and financial flows have created complex arrangements and sums unimagined three or four decades ago; moves to blunt them would bring on damaging consequences of a massive scale.

The companies in which we invest our clients' capital are typically active (and often leading) members of this global machine that not uncommonly derive sizeable portions of their revenue, earnings and cash flows from contracts and customers lying outside the United States.

Recognizing the structure of today's commercial operations, we actively invest in them and may, on occasion, incur capital losses brought on by supply-and-demand interruptions from earthquakes or other natural disasters.

A responsible strategy

What's key here, and what we urge our clients to remember, is that protecting their portfolio is obtained by way of disciplined diversification. That is, when we buy a new stock for client portfolios, the position is typically modest—say 1.5% to 2% of the overall portfolio, although it could go as high as 3%.

We believe this is the most responsible strategy

We routinely monitor market weights as apportioned among industry groups and while not necessarily, nor at all times striving to replicate those weights, we remain continuously aware of how client portfolios are aligned relative to the market.

Containing setbacks

At Midwest Investment Management, our constant focus on stocks of quality

companies that operate strong franchises and derive strength from a global economy helps to impart the diversification our clients both need and deserve in order to contain occasional market setbacks.

We are brought to the question of stock selection, and at what price.

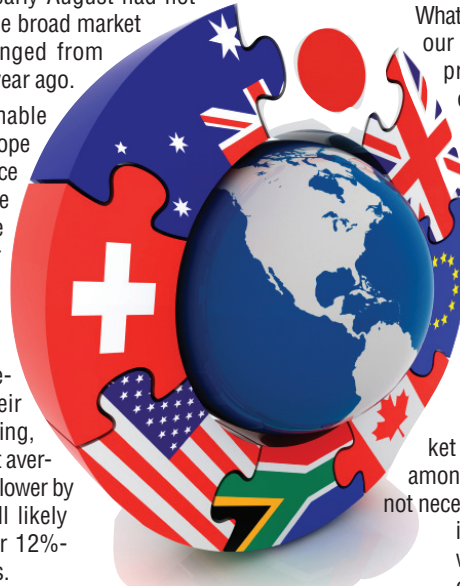
Our extensive and (we believe) quality research cannot always and everywhere guarantee future prosperity of a given company. And even if we were so empowered, the eventual wisdom of our purchase and selling prices are never going to sparkle with 100% insight.

Monitor, then acquire

The best we can do is exactly what our clients hire us to do: First, we monitor the path of a quality company whose fortunes are (based on our experience and judgment) temporarily on a skid. We then proceed to acquire shares in that company at a price which represents a discount to fair or intrinsic value.

Our actions will not always, or in all circumstances, meet client goals.

But... in an overwhelming majority of situations, we DO meet our clients' goals. And that is our genuine pride, allowing us to retain their trust and confidence!



Today's global economy has "interlocked" the economies of nations around the world. Unfortunately for investors, this trend has produced challenges unforeseen 30 or 40 years ago.

"We believe this is the most responsible strategy."

"First, we monitor the path of a quality company..."

3rd Quarter Economic Review

Beyond Dark Clouds Of Political Charades, Market Volatility, And Recessionary Fears, We Foresee A “Silver Lining”

By Norman F. Klopp, CFA, Managing Partner



The increasingly uneven nature of U.S. economic expansion became even more evident during the third quarter.

Economic data remained volatile month-to-month, and talk of a “double dip” recession surfaced in tandem with these ongoing news events:

- The political “charade” of politicians in Washington dealing with the “debt ceiling crisis”;
- The Federal Reserve doing nothing other than issuing a hollow statement about not changing interest rates for the next two years and adjusting the maturities at their current holdings;
- The Administration trying to “stimulate” economic growth using the same tools already tried;
- The European Union trying to resolve its sovereign financial crisis.

Private sector needs

We believe that all of the activities listed above create more uncertainty because the government’s “solutions” have a short-term focus.

A long-term focus would provide some degree of economic clarity and allow a framework for economic activity to develop. This is what the private sector needs. And by “private sector”, we mean consumers at every level; executives of corporations large and small; private business owners; investors; financial institutions; and all of the other economic participants. These are the entities that create demand and the products and services to meet that demand. They are also the providers of capital to finance and sustain that process.

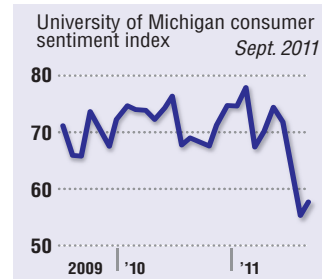
Pessimistic moods

Unfortunately, private sector participants are, at best, uncertain, perhaps confused, and, at worst, scared. As a result, economic growth will not find sustainable momentum until those moods change. As participants in the private economy look to the future, they see a series of government-created events that will impact their taxes, employment costs, regulatory requirements, material costs, and... well, the list goes on.

Many government policies are “temporary”, such as tax incentives that might expire, or become permanent, or be replaced with still another government edict. ***Is it any wonder that consumers are cautious about consuming, employers are cautious about employing, lenders are cautious about lending, and investors, whether individuals or corporations, are cautious about investing?***

Respected Univ. of Mich. Survey Shows Pessimism Growing Among Consumers

Although September’s Reuters/University of Michigan survey showed consumer sentiment edged up to 57.8 from 55.7 in August, Americans remained very gloomy about their economic futures.



Other findings in September:

- 75% of the people surveyed said they anticipate “bad times” in the economy in the coming year, up from about 50% in the January survey.
- 60% said they anticipate their incomes will fall in the coming year after adjusting for inflation—the most pessimistic in the measure’s history.
- Only 17% of the respondents said they expect their finances to improve—the lowest share ever recorded since the late-1940s.

Source: Thomson Reuters/University of Michigan

Pressure to change

It appears the need to address these problems is gaining momentum among the “owners” of our government, namely the participants in the private economy we defined earlier. It also appears that some politicians and bureaucrats are starting to feel pressure to change, and perhaps truly focus on long-term economic solutions.

Public cynicism

We know the depth of current public cynicism raises serious doubts about this happening, but at Midwest Investment Management, we are more optimistic. If we are right or only partially right, even the early signs of this new direction will begin to positively impact the mood and state of both the economy and markets.

As this newsletter was prepared in late-September, we summarized our economic outlook as follows:

- We do not believe we are headed into a “double dip recession.”
- Economic activity and data will remain very volatile month-to-month and quarter-to-quarter.
- We reduced our 2011 GDP growth projection to 2.0% from 2.5% in early-August, but we maintained our 2.5% projection for 2012.

(Continued on page 4)

“Unfortunately, private sector participants are, at best, uncertain...”

“Is it any wonder that consumers are cautious about consuming...?”

PARTNERS

MEG HALLORAN

216.830.1139 or
meh@mimllc.com

NORM KLOPP, CFA

216.830.1135 or
nfk@mimllc.com

AL MESZAROS, CFA

216.830.1133 or
elm@mimllc.com

BOB YAROMA

216.830.1129 or
rjy@mimllc.com

MANAGING DIRECTORS

BILL GRIMBERG

216.830.1132 or
wgc@mimllc.com

KEITH VARGO, CFA

216.830.1134 or
kav@mimllc.com

SUPPORT TEAM

ROGER MCNAMARA, CFA

Investment Analyst

216.830.1131 or
rim@mimllc.com

JACK NAKEL

216.830.1142 or
jwn@mimllc.com

MARY SALZER

216.830.1110 or
mrs@mimllc.com

The Tower at Erieview
1301 East 9th Street
Suite 1110
Cleveland, Ohio 44114

Phone: 216.830.1110
877.945.9900

Fax: 216.830.1159

e-mail: invest@mimllc.com

web: www.mimllc.com

Are Exchange-Traded Funds Useful? Our Answer: "It Depends"

By Elmer L. (Al) Meszaros, CFA, Partner

With each passing year, Exchange Traded Funds (ETFs) have become more popular. Many investors, however, know very little about them.

ETFs are investment vehicles that are similar to a mutual fund, but have some important differences:

1. An ETF is initiated by a sponsor who forms an agreement with an authorized participant or market maker who then borrows shares of stock and places them into a trust.
2. An ETF is a legal claim on shares in that Trust.
3. ETFs trade in the open market during normal trading hours—in contrast to mutual funds whose trades for the day are processed and their net asset value declared only after the markets close.

Main advantages

The advantages of ETFs relate to flexibility in buying and selling, tax efficiency and (often) low cost. They also offer *instant* diversified participation in a desirable sector.

Some disadvantages

On the other hand, there are trading commissions, illiquidity in some lightly traded ETFs and specific dangers in leveraged ETFs—those that strive to deliver two or three times the returns of their benchmark.

Beyond dark clouds... *(continued from page 3)*

- Investor fear has "spiked" significantly and this has taken the market from a short-term fully valued level earlier this year to under-valued now.
- Stock market corrections of 10% to 15% are not uncommon. From the May 2, 2011 high to late September, the market was off about 17%. We believe this was a market correction.
- These recent corrections "feel" much worse than earlier corrections because they take place quickly and with extreme day-to-day volatility.
- High volatility will continue to be a constant in both the market and the economy over the near to intermediate terms.

Advantageous timing

The market correction and volatility has presented an excellent environment for us to make strategic changes in our equity portfolios.

The current environment is also, in our opinion, an excellent time to commit additional cash reserves you may have to the market.

Are ETFs Right For You?



Meg Halloran

"It's important to understand the objective and the strategy of each ETF," says Partner Meg Halloran. "We analyze the pros, and the cons, of various ETFs to determine if they are appropriate for client portfolios, as well as their fit with a client's risk tolerance."

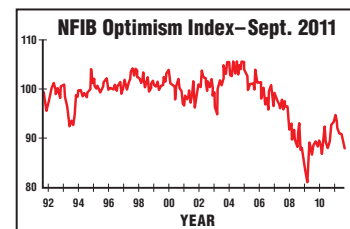
Nevertheless, ETFs can have a place in an investor's portfolio, as a way to take advantage of periodic opportunities, if selected with prudence.

Previous uses

At Midwest Investment Management, we include ETFs in client portfolios when we believe they can be useful vehicles to exploit a particular sector of the market. ETFs we have used include XME (metals and mining), IHI (medical devices), XLE (energy), XLF (financials). We have also used certain-broad based ETFs as placeholders in a rising market, pending investment in individual stocks. Among those are: VIG (Vanguard Dividend Appreciation) and OEF (iShares S&P 100 Index).

Small Business Owners' Optimism Index Continues Downward Trend

The National Federation of Independent Business Small Business Owners' Optimism Index continued trending downward in September, the sixth straight monthly decline.



"Private sector decision-makers think long-term and they don't like what they see," said NFIB Chief Economist Bill Dunkelberg. "There is little clarity or certainty. When people are uncertain about the future or fear it, they don't spend or invest, and they chase after protection—and protection is unlikely to come from the government."

Source: National Federation of Independent Business

We hope you enjoy reading our quarterly newsletter, which contains news about our firm, its investment philosophy, the economy and market trends.

We suggest you retain these newsletters for future reference.

Perspective is published quarterly by Midwest Investment Management LLC, Cleveland, Ohio for its clients, friends and members of the business community. All information contained herein reflects the opinions of the authors and does not necessarily constitute investment advice. Past results are no guarantee of future performance.

©2011, Midwest Investment Management LLC. All rights reserved.