

*Marble Harbor Investment Counsel, LLC*  
*Excerpt from*  
*Fourth Quarter, 2011 Letter*

Dear Client:

As 2011 began, the outlook was fairly positive. If you recall, the stock market had recovered from its summer lows, corporate profits were improving, and the financial system seemed to be healing. Furthermore, the third year of a presidential term typically brings positive equity returns. The housing market was still extremely weak, and unemployment remained stubbornly high. Still, since the global economy appeared to be recovering, stocks, particularly those of the smaller, riskier variety, continued their ascent, rising nearly 10% in the first quarter.

Then, Arab Spring arrived, followed by our own dreadful summer – best exemplified by the embarrassingly protracted debate in Washington over the debt ceiling. This provided investors with plenty to ponder and reason to pause. In addition, the growing threat of European sovereign debt default that dominated the news added to the vulnerable financial climate. With leadership on both continents absent, investors' worried and markets tumbled.

In the meantime, corporate profits continued an impressive rebound. The financial crisis of 2008 forced US corporations to cut costs, improve operating efficiency, and repair their balance sheets by paying down debt. So, public companies actually entered the year in remarkably strong shape. Unfortunately, the macro-economy did not comply, and market volatility became the norm. Each day's news, whether positive or negative, pushed the market up and down creating periods of violent market volatility. As we went from one crisis to the next, triple digit swings in the Dow Index were just part of an average day. What is more disturbing is that these swings were caused by policy issues and not by fundamental changes in stocks. So, the total lack of leadership in Washington had a huge impact on the markets this year. There literally was no place to hide unless you were willing to lend to the US Government for 30 years at a little over 3%. Stocks and other asset classes moved up and down in tandem. Correlation across stocks was a stunning 70%, and even more stunning was the correlation between stocks and commodities at 85%.

The stock market continued to experience volatility throughout the fall as our society's frustrated occupied Wall Street and other landmark venues and European leaders managed (barely) to avoid default. The European Union seems to have weathered the worst of the storm and has held itself together, at least for the moment. Anticipating better times ahead, investors have turned positive, and the stock market rallied through year-end. For all of the drama and "agita" it caused, the market was virtually flat in 2011 with the positive return coming only from dividends. If, like Rip Van Winkle, you fell asleep in January and woke up in December, you'd think that 2011 was a quiet year that didn't impact the stock market very much.



Earlier this year we showed you how we have tried to find ways to enhance your income at a time when yields are at historic lows. Another way we have added value to your portfolio is through tax trades. Where you had losses in certain stocks, we significantly added to the position and held on for 32 days or more. In most cases, the stocks outperformed the market during that time and added to your total return for the year. In addition, you benefitted from realizing the loss, which can be used against current or future gains or against current income.

Finally, we want to tell you about our new colleague, Christopher White. Chris joins us from Fiduciary Trust here in Boston, where he was most recently Chief Investment Officer, portfolio manager and a board member of this \$10 billion firm. Chris has been managing money for families and institutions for the better part of 20 years. At Marble Harbor he will be an Investment Counselor, working with families on their investments as well as assuming research responsibilities. A brief biography is included with this letter. We have known and admired Chris for a number of years and feel fortunate that he has decided to join our team. We look forward to introducing him to you. Welcome aboard, Chris.

We feel that by adhering to our investment principles we have been able to provide you with strong performance not only in 2011, but throughout the time we have been together at Marble Harbor. We look forward to working with you in 2012 and wish all a happy, healthy and prosperous New Year.

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