



Global Overview

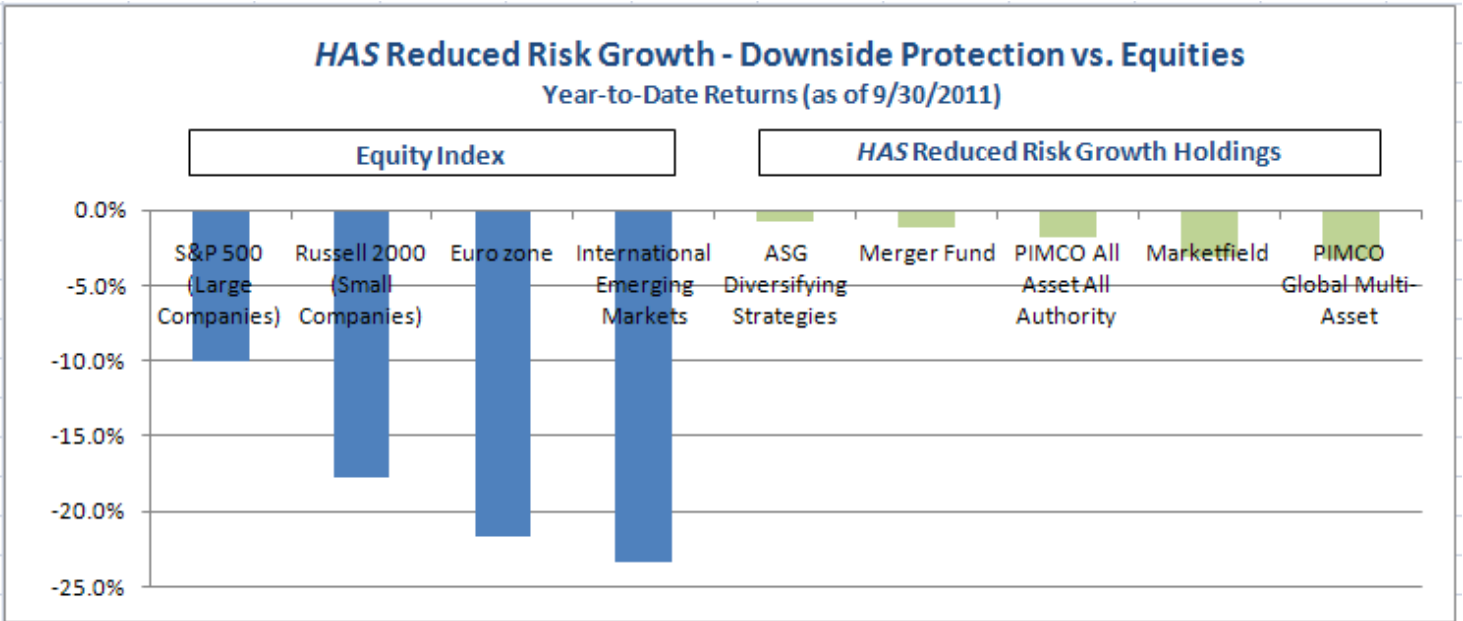
By any reasonable measure, the past three months have been among the gloomiest fiscal quarters on record for the investment markets. The debt ceiling debate, constant dithering in Europe over whether or not Eurozone members should be allowed to default on their sovereign debt, partisan bickering, the downgrade of U.S. government debt, continued unemployment and a general unsettled feeling about the economic recovery have all combined to put investors in a sour mood.

In testimony before Congress Federal Reserve Chairman Ben Bernanke warned that the U.S. economic recovery was “close to faltering” and that Congress and the White House had a “shared responsibility” along with the central bank to respond. Bernanke hopes to spur action in Washington while not undermining fragile consumer and business confidence with gloomy talk. Disturbingly, our economic future is largely in the hands of politicians; we desperately need statesmen. Many people are questioning whether our lawmakers have a clear grasp of the financial and economic challenges facing our nation. When they look overseas, they see that European governments are, if possible, even less functional in their approach to repairing the global economy. Our greatest concern remains the European debt crisis, which if not contained might morph into a global banking crisis. Politicians and policy makers are engaged in a delicate dance with real-world consequences that threaten to tip more economies into recession. This is decidedly not a good time for dance partners to spurn one another.

Executive Summary

- Due to the slowing global economy and heightened uncertainty both here in the U.S. and especially in Europe, we remain cautious.
- U.S. and especially foreign investments had one of their worst quarters.
- Although it was a rough quarter, *HAS* portfolios have been insulated from most of the downside risk in 2011.
- Our sizable holdings of Reduced Risk Growth investments performed as well or better than expected, significantly reducing downside risk and we believe we are well-positioned for a market rebound.
- Expect a higher level of trading between now and year-end due to proactive tax-management and portfolio rebalancing. By strategically rebalancing client portfolios we intend to buy low and sell high, boosting returns with purchases of under-loved, discounted investments while harvesting profits from more frothy investments.
- We also save clients tax dollars with “tax-swaps” and proactive tax-loss harvesting. This enables investors to directly offset current and future taxable gains. In addition, one can deduct another \$3000/year against ordinary income.
- Our primary objective is to help clients achieve their lifetime financial goals with less worry and effort.

It requires a great deal of boldness and a great deal of caution to make a great fortune, and when you have it, it requires 10 times as much skill to keep it. — Ralph Waldo Emerson



Proactive Portfolio Adjustments

The chart above shows 1/1—9/30/11 returns. *HAS* clients have very little exposure to the more volatile international and small company stocks. And thanks to our *HAS* Network, we decided to eliminate most European exposure about two years ago.

We are pleased that almost all proactive adjustments have helped returns, while increasing beneficial diversification and reducing overall portfolio risk. Here is a summary of recent adjustments:

Reduced Risk Growth: for more than a decade, we have significantly improved risk-adjusted returns with our strategic combination of *HAS* Reduced Risk Growth investments. Our combination has provided upside rewards and downside protection in bull and bear markets alike. Note that we sold Goldman Sachs Absolute Return both for mediocre performance and for tax purposes. We added ASG Diversifying Strategies which offers complementary diversification to stocks, expecting it to perform well in a variety of environments (-0.8% YTD).

Market Risk Reduction: During the quarter we increased positions in Rydex Inverse. This fund helps protect portfolios from downside market risk as does Hussman Strategic Growth (+7.2%).

Convertibles: Reduced convertible bonds in order to increase Reduced Risk Growth investments and build cash for opportunistic purchases.

Natural Resources & Commodity: We added a small position in the Tocqueville Gold fund to both hedge against paper currencies and to increase tangible hard assets. Note that our Steelpath pipeline hard asset fund has also held up well while providing generous income. We also sold more volatile economically sensitive natural resource holdings.

International Equity: We selectively trimmed international holdings and made a small investment into Calamos Evolving World Growth.

Dividend Income Investments: We added two new holdings - JP Morgan Income Builder and Eaton Vance Tax-managed Closed-end Funds. These dividend-paying investments provide generous cash flow. We opportunistically bought the Eaton Vance Funds during market turmoil at roughly 15% discounts to their publicly-traded net asset value (see our website's Summer Newsletter Issue on Managed Risk & Opportunity Investing for more information).

Looking Ahead

Between now and year-end we intend to make these modest adjustments, subject to change due to lively market and economic conditions

Gradually Increase International and Emerging Market Holdings: in 2011 our portfolios benefitted by having low international and emerging markets

exposure caused in part by the sharp rebound in our US currency. Notably in our more growth-oriented portfolios, we intend to make equity purchases in faster growing companies and countries. Many are priced at roughly 20% to 30% discounts compared to their recent highs.

Incremental Trading Approach: we continue to employ an incremental trading approach that enables us to take advantage of opportunities and further mitigate risks. We will add to existing moderate risk income and growth investments including JP Morgan Income Builder.

Adding Low Market Correlation Holdings: we are also adding to all-weather investments, such as ASG Diversifying Strategies, that have low market correlations and can post positive returns in a variety of market environments.

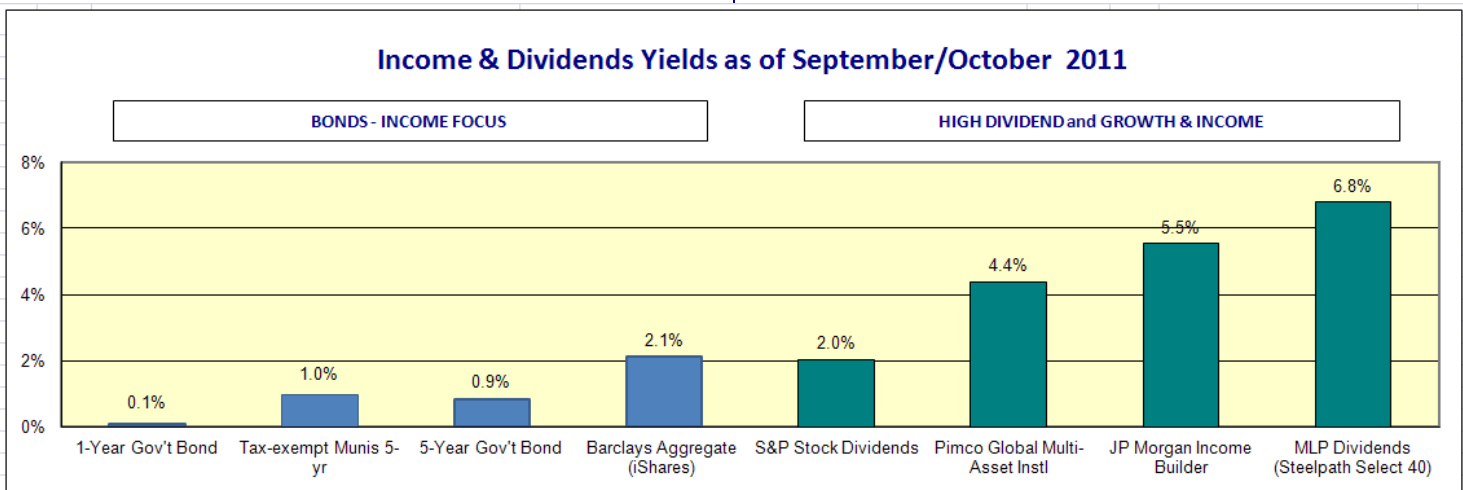
Tax Swaps & Tax-Loss Harvesting: we intend to save our clients big tax dollars with “tax-swaps” and proactive tax-loss harvesting. This enables investors to directly offset current and future taxable gains. In addition, one can deduct another \$3000/year against ordinary income.

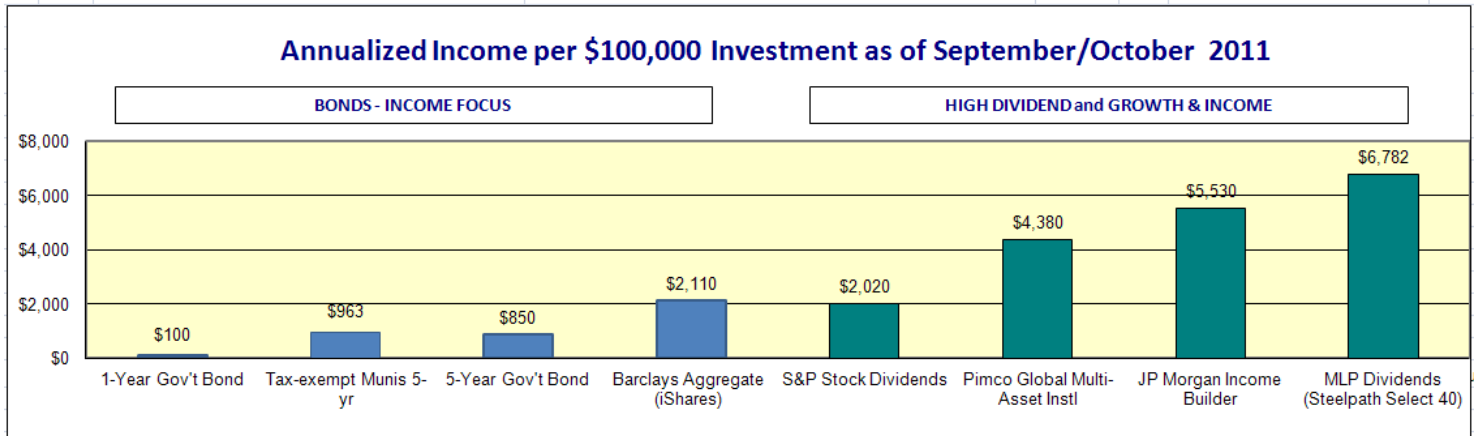
The cost of playing it too safe?

U.S. government bonds have benefitted from the global turbulence, pushing yields down to all time record lows. Consider that bonds of up to 1-year maturity are essentially paying zero interest, while five-year Treasuries plunged to 0.9% a year and 10-year Treasury issues lock you in at 1.8% a year. Imagine attempting to live on 1.8 percent, and that’s before taxes and inflation. What this means is that an

investor who buys a ten year \$1,000,000 U.S. Treasury Bond earns \$18,000 a year. However, after taxes the earnings are only \$1,005/month (assuming a 33% tax rate)! This is a great example of a “safe” government-guaranteed investment that guarantees failure for long-term investors.

To overcome the double whammy of taxes and inflation, most investors desire higher tax-efficient income and growth to meet their future spending needs. This is especially true for the typical retired investor who can plan on thirty or more years of retirement. Fortunately many investments offer a combination of income and growth over time. The graph below illustrates some of these investments. Note that the large S&P 500 companies provide a greater dividend yield than even 10 year Treasuries. Now take a look at the graph on page 4 that shows how much an investor earns a year from dividends/interest payments. The 5-year Government Bond pays a lowly \$900 while our Steelpath Fund has a generous annualized dividend rate of \$6,800/year. Historically the investments included in the Steelpath fund have benefited from both appreciation and increased dividend yields over time. In addition, only a portion of the income distributions are subject to tax. At *HAS* we favor a variety of higher-dividend investments that offer more consistent returns. These investments also provide a welcome cash-generating income stream for clients in need of portfolio distributions. Our “saving” clients who are in accumulation mode benefit from reinvesting dividends and compound growth over time.





Reasons for Optimism

Just as things may “go wrong”, they may also “go right”. There is some good news on the European front; the German parliament voted on September 29 to support the expansion of the European Financial Stability Facility by a surprising 315-85 margin. Germany is the 10th - and most important - of the Eurozone members to ratify the bailout agreement. Europe can stem its crisis by taking decisive, timely measures to shore up its banking and financial system.

Here at home in the U.S., inflation is trending lower and mortgage interest rates are exceedingly low (great time to refinance if you haven't already). Shortages of oil have eased from the start of the year, causing oil prices to drop. Corporate profits and cash levels remain at record high levels, and there are signs that the unemployment problem may be starting to ease - although it will be years before we seen unemployment fall to levels seen in the early part of this decade.

Despite what you hear on the cable financial news channels, nobody really knows how long stocks will remain on sale or how long it will take for the global economy to finally sort itself out. We do know, from past experience, that eventually the economy recovers from even the most severe shocks, and (again, eventually) the markets return to health. History tells us that a recovery is inevitable. Our investment process helps smooth the turbulence in the meantime.

A key antidote for market-related worries is a patient long-term perspective combined with healthy reading and reduced media viewing. Looking back just a few months ago to the first quarter, the markets were flirting with a full recovery from the 2008 debacle, or that in June, the markets were in positive territory overall for 2011.

To sum up, over the short-term, we believe caution is advised until we see some concrete results in Europe and in the US to a lesser extent. Over the intermediate and longer term we are optimistic. Furthermore, fear can create great highly-discounted buying opportunities. Our shopping list includes attractive dividend-paying investments, emerging market stocks and bonds and closed-end funds.

Should you feel especially optimistic or pessimistic then please contact us promptly so we may discuss any adjustments you may wish to make. In the meantime, as we prepare to begin another Holiday Season, may you and yours enjoy the gifts each day offers, including precious moments with family and friends.

Past performance is no guarantee of future results. All content in this newsletter is intended as general information, not specific advice. Performance data listed is for illustrative purposes only. Portfolios are personalized and often consider many variables, including investment objectives, age, time horizon, risk tolerance, client requests and tax variables. Information contained herein has been obtained from sources believed reliable, but not guaranteed.

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