



4Q2011

Prospective

BUILDING RELATIONSHIPS. BUILDING WEALTH.

What Makes Us Different

Mauro Mastrapasqua
President, Principal and Portfolio Manager

Looking ahead into 2012, we cannot help but reflect back upon the almost 20 years of our firm's business, and how we have evolved. Words used to define our firm today are: diversified, accessible, holistic, seasoned, credentialed, transparent, and approachable.

Diversified: In 1993 we had one separately managed account strategy. Today we offer five strategies, spanning the capitalization spectrum – from small to mid to large cap stocks. With our Small-Mid Cap Core strategy at one end of the spectrum, and Large-Cap Growth at the other, we design diversified strategies to meet each client's unique goals and objectives.

Accessible: Historically we have worked with clients who accumulated significant wealth throughout their lives. While those clients continue to comprise a large part of our business, today we especially appreciate

the opportunity to grow with those individuals who are in the earlier phases of wealth accumulation. With separately managed account strategies for higher asset levels, we also offer fee sensitive mutual fund strategies for smaller accounts.

Holistic: Having hired a Certified Financial Planner with thirteen years of industry experience over a year ago, our firm provides a holistic approach to serving a client's financial needs. Our comprehensive financial planning practice is growing as we help individuals focus upon tangible goals and objectives.

Seasoned: Our team of investment professionals has an average tenure with our firm of 11 years, and an average tenure in the investment business of 20 years. There is a definite sense of camaraderie and respect among these individuals.

Credentialed: With four Chartered Financial Analysts and a Ph.D. on the investment team, the investment team meets *every day* to discuss the holdings of client portfolios, as

opposed to many investment firms meeting only on a weekly basis. Importantly, investment decisions are made right here in our offices, not outsourced to a faceless manager in a distant office.

Transparent: Our firm's fee structure is transparent and competitive, unlike many firms where the layers of fees make it difficult to calculate what one is actually paying for a service.

Approachable: Our doors are always open. We foster an environment of continuous interaction among our investment professionals. Likewise, we also encourage clients to join us for our morning investment meetings, or to come in to discuss their portfolio at any time.

We welcome and look forward to the opportunity to visit with you or someone that you feel would benefit from our unique investment process.

A Tale of Two Consumers

Rachel White
Principal, Senior Analyst

In 2011, the Mastrapasqua investment team identified the bifurcated spending habits of the U.S. consumer after looking at the developing macroeconomic data that pointed to distinct opportunities in the consumer sector. Although the year ended with better than expected retail traffic and relatively healthy spending patterns across most income levels, the performance of consumer driven names reflected a tale of

two consumers: the wealthy and the "trade down" consumer. Retail stocks defined by higher end, premium priced goods, and companies focused on the trade down consumer outperformed retail names that fall somewhere in the middle. On the high end, retail companies that offer premium goods with strong brands have attracted the shopping dollars of wealthy consumers. On the other end of the spectrum, the extreme value-focused dollar themed stores and discount fashion names like TJ Maxx and Ross Stores have successfully appealed to

the more discretionary consumer, who has continued to trade down in order to get more for their dollar.

While job gains materialized and the unemployment rate stabilized in 2011, the positive impact of these changes did not have a broad effect across income levels due to several factors. First, in order to deleverage, consumers increased their savings rate at the expense of retail stocks that were more exposed to the middle to

Continued on page 2.



A Tale of Two Consumers cont.

low income consumer. The high income consumer, on the other hand, has been able to recover to more normal spending patterns in a shorter period of time. Second, the political and economic uncertainty at home and abroad (Europe and the Middle East) kept a damper on expectations, especially for the more discretionary middle to low income consumer.

Heading into 2012, the data point to a broadening of spending across income levels. Consumer confidence has jumped to an 8

month high, jobless claims are at their lowest level since 2008, and a historically low interest rate environment should provide a healthy foundation for consumer spending to drive sales growth for well-positioned retailers this year.

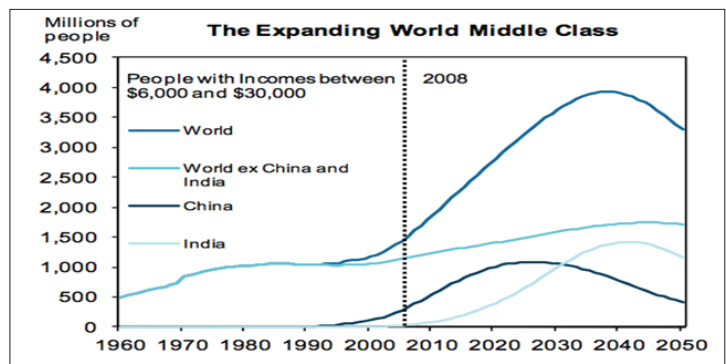
Longer term, the global consumer wealth effect that is well underway has reached an inflection point for emerging market consumer behavior. Emerging economies such as Brazil, China, and India have exhibited resilient spending patterns largely fueled by a significant increase in wealth combined with a broadening demographic

impact. Combining high population countries with a 20% plus wealth growth rate creates a significant opportunity for retailers with strong brand recognition and strategic market positioning within these emerging economies.

The Mastrapasqua team will continue to focus on retail names with strong brands targeted at wealthy consumers, stocks benefiting from the trade down effect, and companies with existing and growing presence in key emerging economies such as China, Brazil, and India.



Source: Goldman Sachs



Source: U.S. Dept. of Labor and Factset Research Systems

Growth, Core or Value? ... Ahhh, Whatever!

Don Keeney, CFA
Principal, Portfolio Manager

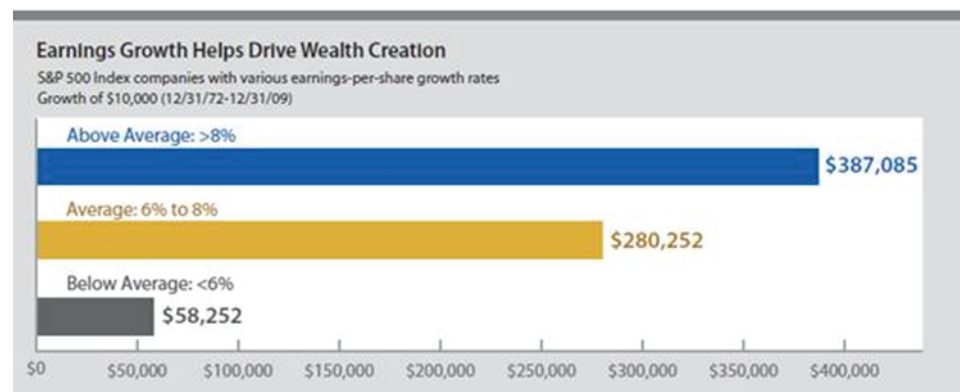
Investors spend a lot of time discussing the classification of investment managers. The definition of "growth" is complicated: does that mean revenue growth? EPS? Returns on equity? Value investing is typically better understood, as defined by Warren Buffett and Ben Graham: buying companies at a price below what you believe it to be worth. Note that this definition does not say anything about the company's ability to grow. Really, though, no stock will be worth the investment if it doesn't grow at some point.

Mastrapasqua Asset Management was generally classified as a growth manager for

the first decade of the firm's history. Over the second decade, we expanded as a "Core" manager who manages multiple products in several different investment styles: growth, core, and equity income. As a manager with

multiple investment products, there is one common denominator: we do typically invest in sectors and companies that have the potential to grow.

Continued on page 3.



SOURCE: Ned Davis Research, 12/31/09



Growth, Core or Value? ... Ahhh, Whatever! cont.

The only important question stemming from this discussion is: “Do growth stocks outperform value stocks?” or “What level of growth is necessary to see better performance?”

According to the Earnings Growth chart on the prior page, companies that have grown their earnings at a rate greater than 8% over the last 37 years have significantly outperformed those companies that have grown their earnings at a rate below 6%. The difference between over 8% growth and below 6% is striking! Clearly, it is important to long term returns that the companies you invest in are able to grow their earnings.

We recognize that this chart is not perfect:

1. The chart is only through 2009. However, in 2010 and 2011, growth indexes generally outperformed their value brethren and thus increasing the discrepancies between the two groups.
2. We are not defining “growth companies” as those with better than 8% earnings growth – just considering companies that are growing.

The point of the chart is simply to provide one perspective on the relationship between a stock’s return and the company’s growth in earnings per share.

We are also not advocating screening the S&P 500 for those companies with the highest earnings per share growth rates and

then sinking one’s life’s savings into those. We are making the point that companies that grow (generically) outperform those that do not. There are many other factors that do come into play (valuation, cash flows, capital allocation, management, etc.) and those should be considered closely as well. At Mastrapasqua, we do consider all those factors prior to making an investment decision – a balanced approach is likely the best.

No matter how clients and potential investors try and classify our investment style, we look to invest in sectors and companies that have the potential to grow over time. We feel that this approach gives us a great chance to generate competitive investment returns over time. Our clients have been well served by this approach.

Earned Any Dividends Lately?

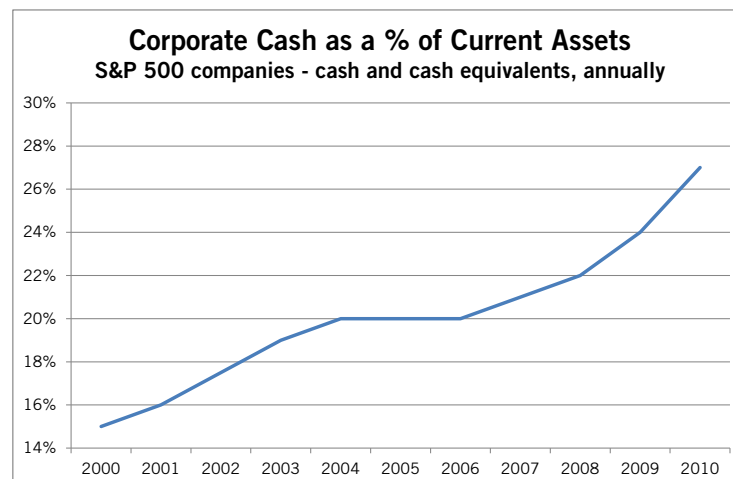
Claude Koontz, CFA
Principal, Portfolio Manager

Frustrated by low fixed income yields and almost non-existent yields on cash, coupled with equity market volatility, investors have shifted their focus to high-yielding stocks – for both income and capital gain potential. Dividend paying stocks proved a solid bet during the volatile periods of the past year. According to Birinyi Associates, through mid-December, the 100 highest-yielding stocks in the S&P 500 index are up an average of 3.7 percent before dividend payout; the 100 lowest-yielding stocks are down an average of 10 percent. Given equity markets continued to be roiled by on-going fiscal policy uncertainty in Europe and Washington, investors are seeking the relative price stability of dividend-paying stocks versus price volatility generated by non or low-dividend paying growth stocks.

In terms of income generation, the S&P 500 index yield is 2.13 percent compared to an abysmal yield on the 10-year Treasury bond of 1.89 percent. The average yield for equity income oriented portfolios can range well

above 4.0 percent. Mastrapasqua manages an equity income strategy which currently yields 4.2 percent. In addition, unlike fixed income coupon payments which are static, dividends can grow over time. As the nearby chart indicates, cash on U.S. company balance sheets expanded significantly over the last decade. Shareholders have taken notice and continue to prod company managements to raise dividend payments. Cash piled up over the last three years as

company managements 1) delayed major capital expenditures pending a clearer economic picture, and 2) feared a repeat of the liquidity crises in 2008 (thus keeping an abnormally high cash level on hand). The risk to an equity income strategy is based on the speed of the economic recovery. As noted, a sluggish economy drives investors to dividend-paying stocks where some return is gained through a dividend payment and price volatility is minimized. However, as



an economic recovery picks up steam, investors shift to stocks perceived as benefitting the greatest capital gain potential from an improving economy as demand rises.

Source: Standard & Poor's, JP Morgan Asset Management



What Are the Alternatives?

Will Welborn, CFP
Vice President, Financial Planning Services

Have you heard about “*alternative investments?*” Do you know what they are? As best we can tell, alternative investments or “alts” encompass any investment strategy that involves something other than traditional, long-only portfolios constructed with stocks, bonds, and cash. Alternative investments include hedge funds, real estate, commodities, long/short and market neutral strategies, currency trading, managed futures, beanie babies, banjos, and baseball cards. Leverage, short-selling, derivatives, liquidity, non-normal returns, and manager due diligence are all basic considerations investors need to analyze in addition to the high internal expenses often associated with these complex strategies.

“*Alternatives*” are getting a lot of attention not only because they are relatively new and different, but also proponents argue that alts are negatively correlated with traditional assets classes and can help diversify a portfolio, thus smoothing out returns. They offer colorful graphs and charts demonstrating that certain alternative strategies held up during the 2008 market downturn relative to the significant declines produced by stocks. They argue that inclusion of alts over the last 10 or 15 years may have reduced volatility while annualized returns remained the same. A great sales pitch? Yes, but not necessarily a reason to buy in. Reliable

long-term performance numbers for hedge fund managers, currency traders, and managed futures managers are hard to find unlike the case with traditional asset classes where investment researchers can analyze scores of rolling 10 and 15 year time periods across all kinds of economic environments. (Likewise, it was difficult to find long-term performance numbers for structured mortgage products back in 2008.)

The investment industry is constantly creating new kinds of “products” to sell with hindsight taking precedence over the current economic outlook. A closer look reveals that “alternatives” as a stand-alone, bundled asset class are broadly defined at best, so it is difficult to define and evaluate a particular style or quantify risk over long time periods or even short ones. Many alternative strategies are illiquid and most are expensive, especially for individual investors. And while some alternative managers might report good performance numbers over select time periods, it can be difficult to understand exactly how those returns were generated since reporting requirements are often less stringent.

Conclusion

Invest in what you know and understand. Stocks and bonds are considered traditional asset classes. They have long-term behavior patterns as an asset class which helps managers assess valuations within a historical framework that encompasses

economic cycles spanning over a century. We know that stocks are reasonably priced and below their historic averages relative to earnings. While 2011 was a bumpy ride for stock investors, most major indices rallied nicely during the fourth quarter. Dividend paying stocks- including many of those in the Dow Jones Industrial Average- performed very well in 2011. And despite the S&P 500 being relatively flat for 2011, trailing 3-year returns are still well above long-run averages. 2008 was the worst year since the Great Depression for equity investors, but the S&P 500 index closed almost 40% higher at the end of 2011 than it did on December 31, 2008. Investors who stuck to their long-term strategies using traditional asset classes have been rewarded for staying the course despite a choppy 2011.

We recommend sticking with large company core stocks, dividend paying stocks, quality mid and small caps, and reduced exposure overseas combined with short-term, high-quality bonds and perhaps even some cash to reduce volatility. We continue to believe in using traditional investment strategies. Overweight the sectors and regions expected to outperform based on current conditions, shorten or lengthen fixed-income maturities as necessary, and rebalance regularly based on personal goals and objectives. Some years will be better than others, but as long as you remain on track, there is no need to experiment with unproven, overly-complicated investment strategies.

The full Firm Brochure for Mastrapasqua Asset Management which includes our Privacy Notice, Proxy Voting Policies, and our Code of Ethics, is available upon request. To obtain a copy, please call us at 615-244-8400 or email us at info@mastrapasqua.com. The information and opinions contained in this report should not be treated as fact or as insight that will produce desired investment results over time. Investment conclusions always bear risk, and that risk may not be reasonable for any particular reader. Obviously the writer, even assuming good intentions, does not know of the reader's particular financial circumstance and therefore is not able to assess the propriety of whether a named security makes sense as part of a given individual, family, or institutional portfolio. Mastrapasqua Asset Management clients may, from time to time, own some of the companies mentioned. We hold out no duty to give readers of this column advanced notification of when we may change an opinion. To our knowledge, none of the information contained in our column would, when it becomes publicly available, have an influence on the valuation of a particular stock. Investors should receive investment advice based on an assessment of their own particular investment circumstances and not on the basis of recommendations in this report. Past performance is not indicative of future returns.

814 Church St., Ste 600
Nashville, TN 37203

Phone: 615-244-8400
Toll-free: 800-466-9055
Fax: 615-244-1148

Please contact us if you have any questions.



www.mastrapasqua.com

755 East Mulberry, Ste 470
San Antonio, TX 78212

Phone: 210-353-0500
Fax: 210-353-0503