



**Nestlerode & Loy** inc  
*investment advisors*

*Research-based Solutions • Personal Attention*

Things are changing at the office. We installed a new portfolio management system called Power Advisor, to help us manage your holdings. The transition from the old system (Axys) was a little bumpy over the past six weeks, yet through the great efforts of our own Brian Anderson and the people at Power Advisor we now have reporting that is very similar to our old reports. You will note the headers on the reports are

different, but the data is in the same format. The best part of this change is that we can manage your accounts wherever we have an internet connection. For me, that could mean at home, office or camp, as we call our retreat on Little Pine Creek. For you, the advantage is that we can pay ever closer attention to your holdings. In this day and age, we don't need any surprises in your portfolio.

In more mundane matters we have noticed from time to time that our telephone system is less than 100% reliable. We are not sure if it is our internal system or the carrier we are contracted with at the present time. However, if you attempt to call us and cannot get through, remember that you can use two cell phone numbers that do not rely on either our internal phone network or our external carrier. Those numbers are (814) 880-1001 and (814) 574-5384.

Jody Sharer, our Chief Compliance Officer (COO) spent seven days at the University of Pennsylvania in an in-depth residential course, Certified Regulatory and Compliance Professional (CRCP because we have to have an acronym) Program at the FINRA

Institute at Wharton. This intensive course covered all the current compliance issues in the brokerage and money management industry, and we are honored that Jody was awarded one of only three course scholarships given. To date, Dodd Frank rules, regulations and paperwork haven't arrived at our doorstep yet, but you can expect even more paperwork and rules in the future if the past is prologue.

The year is slipping by rapidly and we find ourselves in the third quarter of 2011. The investment markets were flat for the first six months, aside from a rally in the stock market the last week of the second quarter. The stimulative efforts of the Federal Reserve, through Quantitative Easing II (QE II) supported higher stock prices and commodity prices since late last August. QE II ended June 30<sup>th</sup> and the politicians in

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Washington are now locked in a debt limit debate that might determine the direction of government spending and taxing for years to come. Even with sharp reduction in spending, it is clear that the government will have to continue rolling over maturing debt (nearly \$7 trillion comes due in the next five years and will have to be refinanced or rolled over) and issuing even more debt to finance its continuing deficits. It is doubtful that tax rate increases would generate sufficient funds to pay for the existing promises that Washington has made to the citizens. How these major issues will impact the investment markets is one of those issues that keep my attention riveted to the unfolding developments.

Investment management is first and foremost making sure that each of our clients is never washed out of the game. In other words, protecting your capital regardless of the events in the economy and Washington is our first concern. Then we proceed to garner a reasonable rate of return as measured by our reports, comparing your returns to the markets and alternative investments. Our returns for the first six months of 2011 are as follows:

	<b>1/1/11 to 6/30/11</b>	<b>3/30/11 to 6/30/11</b>
All Accounts	2.14	-0.43%
S & P 500	5.01%	-0.39%
Value Line Geo	3.07%	-2.28%
Aggressive Growth	-1.23	-2.61
Aggressive Income	2.24	1.04
Growth	3.17	-0.61
Income	2.72	0.95
Growth & Income	2.54	0.20
ETF Accounts	2.38	-1.66
Trusts	4.88	0.27
Non Profits	4.05	0.48
Preservation of Capital	0.96	0.04



Performance since June 30<sup>th</sup> has been very good, largely due to the recent rise in the price of gold. It would seem that the debt crisis in Europe and the impasse over the increase in the debt ceiling is making investors a tad nervous and has them running towards a currency that politicians can't tamper with.



One of the themes in our portfolio management is to have our clients benefit from the development of the Marcellus Shale. To this end, we have an exchange traded fund in many portfolios, First Trust ISE-Revere Natural Gas (symbol: FCG), that invests in the gas drilling stocks. Drilling activity in Pennsylvania is impressive. We have two bank stocks in many portfolios, Penns Woods Bancorp (Jersey Shore State Bank) and Citizens & Northern Corp, a bank headquartered in Wellsboro, PA. Gas development should allow these banks to profit handsomely from the influx of money into the region (first from drilling operations and later from pipeline operations and gas sales).

We are also doing research into issues surrounding municipal bonds. Historically, municipals were considered nearly as safe (from default) as U.S. Treasury Bonds. Times have changed and it would seem that much greater care, concern and oversight are now required for a successful portfolio in municipals bonds to work as expected. I have noted that there is a substantial difference between bond prices as reported by the brokerage firms (from computer model pricing) and the real price at which you could sell your bonds. This is especially true of lesser known names among the municipal bond issues outstanding. I am concerned about pricing and liquidity issues of municipal bonds as well as the ongoing quality or safety rankings. Many bonds that were issued with bond insurance from the monoline municipal insurance companies that initially enabled them to be rated AAA, have ironically been lowered with the bankruptcy of those very insurers. Some analysts, such as Meredith Whitney, are calling for real turmoil in the municipal markets in the future as state and local finances are stressed by the continuing recession.

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My current conclusion is that municipals bear careful watching and are not a “set and forget” investment, contrary to the way laddered municipal bond portfolios have been promoted. Therefore, we are carefully watching municipal bond mutual fund pricing (prices at which transactions occur daily as opposed to prices on your brokerage statement on individual municipal issues) and municipal Exchange Traded Funds. The tax-free interest on these bonds makes them appealing. However, you do not want to exchange principal for interest even if it is tax-free at the Federal level.

Now is the time to start considering your charitable donation for 2011. We encourage everyone to identify and work with our office to help you transfer appreciated securities to your favorite charities. Please give us plenty of lead time so that we can do the detail work that will allow you to get your tax deduction for 2011 and get the funds to your charity. Also remember that if you are over 70-1/2, you can gift your required minimum deduction (RMD – maximum amount \$100,000) directly to a qualified charity and avoid being taxed on the distribution as income. Please check with your tax advisor on the details.

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*A Personal Note...*

*My definition of retirement is short and simple. I can collect full Social Security benefits. Nothing else changes. Oh yes, I transferred the ownership control and management of the company some time ago. Thus, I am relieved of the details of running an investment advisory and brokerage firm. So I am free to concentrate on investment market research, portfolio management, spending time with our wonderful clients and talking to potential clients. Using technology, I can do this from the office in State College, my home in State College and from our vacation home in Pine Creek. The internet gives me access to the markets and to every account and, of course, the telephone gives me the usual access to you. While I am out of the office, our great staff just makes things happen like magic. You might think I am a lucky guy; however, I planned it this way many years ago.*

*In addition to managing money, I am now the treasurer of the Waterville Volunteer Fire Company as well as the treasurer for the Centre County-based Outdoor Sportsman's Club and the President of the 4-H Development Council at Penn State and the President of Pine Village, Inc., our family holding company. Life is very full and busy as Mary Jo, my better half and Associate Director for Cooperative Extension, works from the deck downstairs and the dogs, Newt, Teal'C and Jack sleep on the floor around my feet. It doesn't get much better than this, as they say.*

*Finally, as if I wasn't doing enough, I have contracted to write a book on the principles of investing. No, this isn't a book on stock tips but a book on some long time investment principles that people often ignore to their detriment. I hope to have it done by the 75th anniversary of the company next April. I will have more in the next newsletter.*

*Dan Nestlerode*

*Pine Village*

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