January 5, 2012

Name
Address
City

Dear Client,

Happy New Year! While last year brought plenty of opportunities for personal and professional growth, some of the market action was a bit tiring. I am ready to turn over a new leaf. For the year, the Standard & Poors 500 stock index, after some wild swings, finished almost exactly where it started at 1,257.60. Including dividends, the total return for the index was 2.1% for the year. The accounts I manage advanced on average 2.8% before management fees, although a handful had negative performance for the year. Developed International markets fell 14.8%, while Emerging International markets shrank 20.4%. All the U.S. bond indices finished in solidly positive territory, with longer dated maturities climbing in double digits. As previously noted, I have sworn off new bond investments, so my accounts did not benefit much from these increases. Summed up, during a year that provided many ways to lose money, the portfolios I handle enjoyed principal preservation and progressed a little.

Many of the wild swings in the global equity markets were triggered by concerns about possible European sovereign debt defaults. This two year old crisis of confidence is based on the very real issue that numerous Southern European nations have unsustainably high debt ratios relative to economic output. Said differently, the effected countries can't earn enough to pay off their debt and can't print money to pay off their debt, and therefore are having trouble, without European Central Bank (ECB) assistance, rolling over their debt at affordable interest rates. However, the ECB withholds assistance until the debt markets are on the brink of collapse and then provides a modicum of temporary relief while continuing to talk tough about the need for fiscal austerity programs in the economically challenged countries. The problem being that while excessive government spending created the mess, harsh cutbacks will only cause economic weakness that reduces the tax base, which perpetuates the cycle. The European Community is attempting to balance fiscal austerity and monetary ease. The solution in Europe and other global economies, including the United States, is to gradually reduce the percentage of economic activity that revolves around government spending and start to pay down accumulated debt.

I have been underinvested in the stock market in my client accounts over the last year, as I was concerned failure of the European balancing act might lead to a credit crisis similar to the one in late 2008 and early 2009. Having studied the situation in great detail, late last year I became less concerned about such a crisis event and therefore have been adding to stockholding during periods of market or company stock price declines and will continue to going forward. Please keep in mind that as my experience as a portfolio manager and financial planner increases, my willingness to make predictions of any kind has decreased. I am willing to have an informed opinion, but predictions have proven to be a waste of time.

Finally, starting in the second quarter of this year, management fees will be reduced for clients of New West Investment Management, Inc. When I envisioned this company over 20 years ago, one of the guiding principles was to establish a reasonable fee structure based on what clients could expect to earn. We are now quite a ways into a period of very low potential returns on both cash and fixed income investments. As I expect the suppressed return environment to continue for a while, I will be lowering the fee charged for cash equivalents, fixed income and mutual fund holdings in client accounts. While this is not likely to change anybody's lifestyle, it is an important step to take to insure that it is clear that I have your best interest in mind. I will provide further detail in documents provided at the beginning of the second quarter. Enclosed please find your year-end portfolio report, which includes your realized gains and/or losses and a schedule of management fees paid in 2011.

Best regards,

Peter V. Hedberg