# Van Sant & Mewshaw Inc.

## Registered Investment Advisor

# Common Sense Advisor ©

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## MARKET MANTRA

### ANALYSIS/COMMENTARY

*"To profit without risk, experience without danger and reward without work is as impossible as it is to live without being born." (A. P. Gouthey)*

Perhaps never a truer maxim has been written with regard to investing one's capital. But which risks are worth taking and which are not? Which risk poses the greatest threat and which the minimal? Risk, simply defined is the uncertainty of future results. Moreover, it is an absolute truth

*(Continued on page 2)*

**Returns 2011**

| INDEX | YTD | 1 YEAR |
|---|---|---|
| US REIT | +9.10% | +30.50% |
| Gold $ Per Troy oz. | +5.71% | +24.54% |
| US Small Cap | +5.60% | +36.80% |
| S&P 500 | +5.01% | +28.50% |
| Intl Developed Mkts. | +4.98% | +30.36% |
| Crude Oil $ Barrel | +4.42% | +3.90% |
| US Bond Index | +2.72% | +3.90% |
| GS Commodity Index | +2.71% | +22.74% |
| 1 YR US Treas. Bill | +0.11% | +.22% |
| Emerging Markets | -0.45% | +24.86% |
| US Dollar Index | -04.89% | -10.19% |

## NEWS AND UPDATES

### VSM Internal Compliance Audit

As we described in our letter enclosed in your last quarterly statement, the SEC has implemented a massive overhaul of our regulatory filings. As a result we are currently undergoing an internal compliance audit and updating our client files to insure we are in compliance with the new SEC rules and regulations. As a result some clients may receive an "audit letter" with regard to their account. The letter may request you provide updated or confirm existing information such as marital status, state of legal residence, beneficiaries, etc. If you have any questions please call. We apologize for any inconvenience this may cause.

### Thank You for the Referrals

Recently we have been the beneficiary of many new clients coming to our firm. All of which have come to us through the referral of our existing clients. First, and foremost we want to make a point of expressing our appreciation to those clients who made those referrals. Second, we understand the confidence that this decision represents and we will strive to provide those new clients with a profitable and positive investment experience.

### Required by the SEC

Rule 206 (4)-6 of the Investment Advisors Act requires all Investment Advisors to make available, to their clients, a copy of their **Proxy Voting Policies and Procedures** and a copy of the firm's **Code of Ethical Conduct**. Please consider this our offer to provide, upon request, a copy of our proxy voting policies and procedures and code of ethical conduct. Also enclosed in client quarterly statements is a copy of our **Client Information Privacy Principles**.

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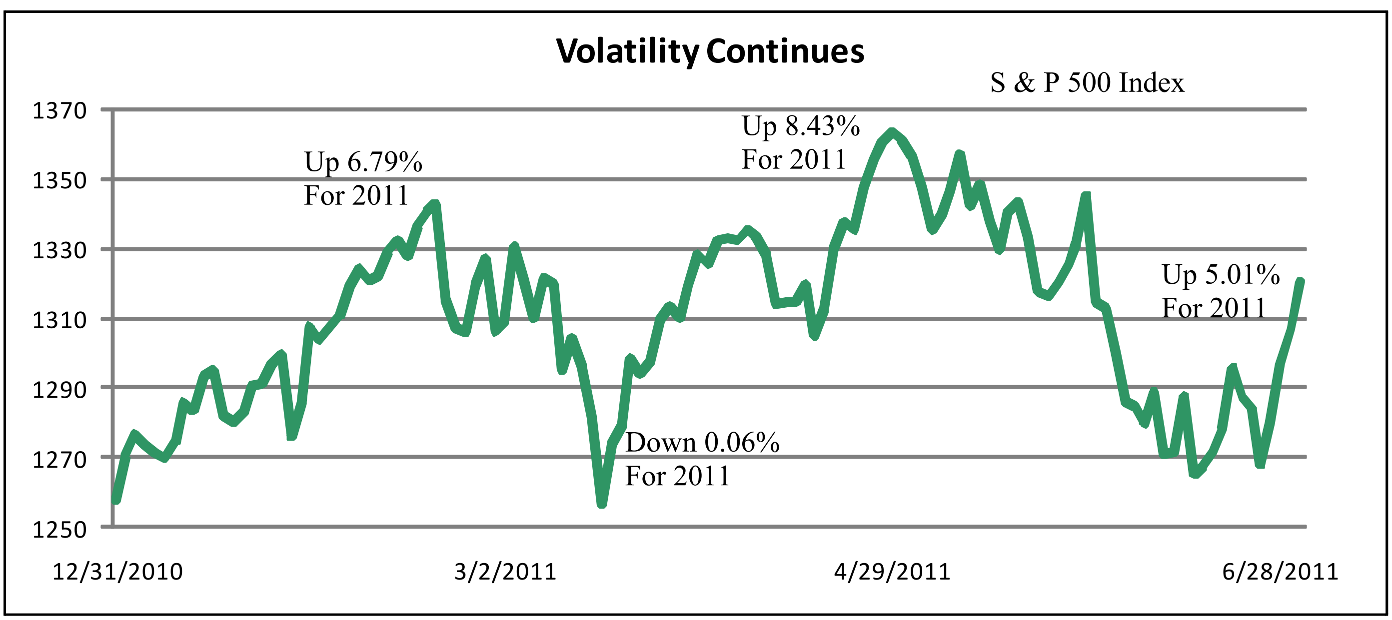
that there is no aspect of life that is risk free. The fact is, even the most self-declared risk-averse people take risks every day. There are the routine and easily identifiable risks, such as, our safety in crossing the road, driving on the expressway, exercising at the gym, choosing a diet and using power tools. Then there are the less obvious risks like selecting an educational path, choosing a career, choosing a spouse, buying a house and having children. These are all risky decisions, all uncertain, all involving an element of fate. In making these decisions, we seek to ameliorate risk by carefully weighing the alternatives, conducting research, judging possible outcomes and balancing what feels right emotionally and intellectually, both in the short term and in the long. Sometimes, we may ask an independent outsider to guide us in making our decision, perhaps our clergy, lawyer, doctor or even our auto mechanic. They do this by providing an objective assessment of the potential risks and rewards of various alternatives, by taking a holistic view of our circumstances and by keeping us free of distraction and focused on our original goals. In essence, we are consciously and unconsciously identifying and managing risk on varying levels every single day.

Certainly, this is the value that a good investment advisor brings to the investing equation. Not only in understanding the relationship between risk and return, and how to build a commensurate portfolio, but in knowing the specific needs, circumstances and aspirations of their individual client. Indeed, identifying and managing risk is the basis of our investment philosophy. It comprises the majority of our investment process.

The peculiar thing about investment risk, it is more dangerous as it seems less obvious and less dangerous as it seems more obvious. Quite simply, many investors fail to recognize this paradox and perceive risk incorrectly. They mistake short-term market volatility as a threat and corporate identity (i.e. Citigroup, AIG, and GM) as a safe harbor. They take risks they do not need to take. They gamble on individual stocks, they rely on forecasts, they chase past returns, they fail to rebalance their portfolios to take account of changing risks and they run up unnecessary costs and tax liabilities. In essence, this is like trying to cross an eight-lane highway in the face of heavy traffic when there is a pedestrian bridge a little way down the road. You may well get to your destination safely through the traffic, but it will be despite your actions rather than because of them.

Understanding investment risk begins with accepting that the market itself has already done a lot of the worrying for you. Markets are highly efficient, which means that new information is quickly built into prices. Instead of trying to second guess the market, you work with it and take the returns when offered and most importantly, avoid the catastrophic losses.

In considering all of this, it is important to understand that risk can never be totally eliminated. If there were no risk, there would be no return. But your chances of a good outcome are far greater if you use the accumulated knowledge of financial science and the guiding hand of an experienced advisor who knows and understands you.



# Notable Quotes

"If you want to understand better why so many states from New York to Wisconsin to California are teetering on the brink of bankruptcy, consider this depressing statistic: Today in America there are nearly twice as many people working for the government (22.5 million) than in all of manufacturing (11.5 million). This is an almost exact reversal of the situation in 1960, when there were 15 million workers in manufacturing and 8.7 million collecting a paycheck from the government. It gets worse. More Americans work for the government than work in construction, farming, fishing, forestry, manufacturing, mining and utilities combined. We have moved decisively from a nation of makers to a nation of takers. Nearly half of the $2.2 trillion cost of state and local governments is the $1 trillion-a-year tab for pay and benefits of state and local employees. Is it any wonder that so many states and cities cannot pay their bills?" *(We've Become a Nation of Takers, Not Makers, The Wall Street Journal, Stephen Moore, 4/1/2011)*

"The Great Recession has now earned the dubious right of being compared to the Great Depression. In the face of the most stimulative fiscal and monetary policies in our history, we have experienced the loss of over 7 million jobs wiping out every job gained since the year 2000. From the moment the Obama administration came into office, there have been no net increases in full-time jobs, only in part-time jobs. This is contrary to all previous recessions. Employers are not recalling the workers they laid off from full-time employment. Today, over 14 million people are unemployed. We now have more idle men and women than at any time since the Great Depression. Nearly seven people in the labor pool compete for every job opening. Hiring announcements have plunged to 10,248 in May, down from 59,648 in April. Hiring is now 17 percent lower than the lowest level in the 2001-02 downturn. One fifth of all men of prime working age are not getting up and going to work. Equally disturbing is that the number of people unemployed for six months or longer grew 361,000 to 6.2 million, increasing their share of the unemployed to 45.1 percent. We face the specter that long-term unemployment is becoming structural and not just cyclical, raising the risk that the jobless will lose their skills and become permanently unemployable."*(Why the Jobs Situation Is Worse Then It Looks, US News and World Report, Mortimer B. Zuckerman, 6/20/2011)*

"Two individual investors just scored a remarkable win against Citigroup. A few weeks ago, the pair was awarded a total of $54.1 million in a securities arbitration case against the Smith Barney unit of the company the largest amount ever awarded to individuals in such a case, according to the Financial Industry Regulatory Authority.
This legal dust-up involved supposedly conservative municipal bond investments that Smith Barney had peddled to its wealthiest clients. The investments, which were big money-makers for Smith Barney, turned out to be anything but safe for the firm's clients: various portfolios lost between half and three-quarters of their value during the financial crisis...The big clunker was a municipal bond arbitrage strategy that their Smith Barney broker had characterized as safe, according to the men's complaint. The deal was supposedly designed to eke out more income than a simple portfolio of bonds would generate."*(A Crack in Wall Street's Defenses, New York Times, Gretchen Morgenson,4/23/2011)*

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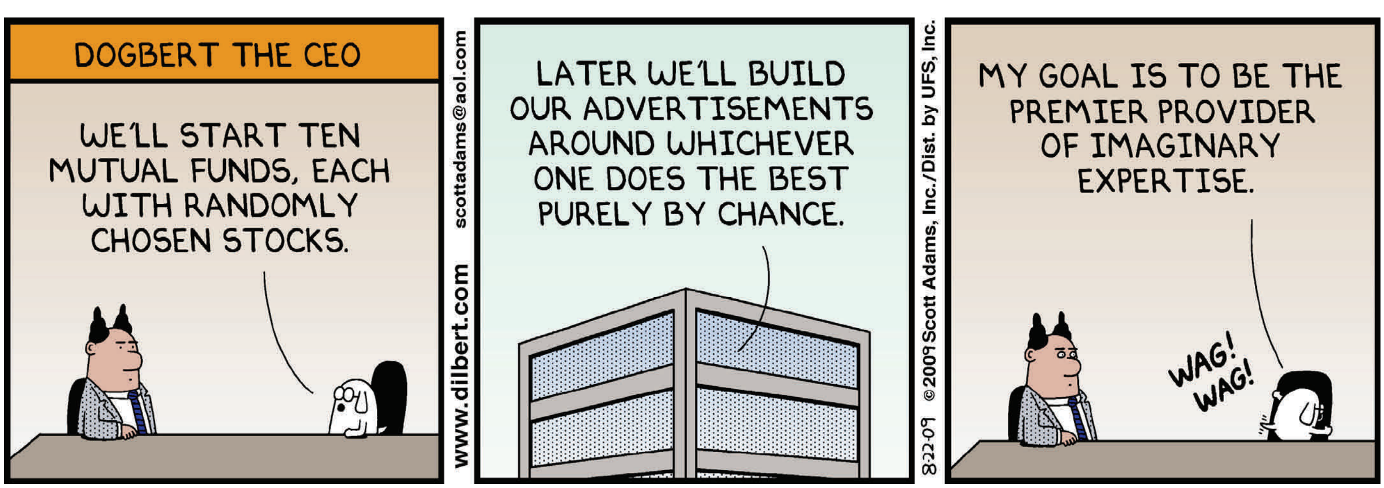

# Randomness Of Market Returns

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| HIGHEST RETURN | Commodity 49.74% | US REIT 12.35% | Commodity 32..07% | Emerging Markets 51.59% | US REIT 33.16% | Emerging Markets 30.31% | US REIT 35.97% | Emerging Markets 36.48% | US Bonds 5.24% | Emerging Markets 74.50% | US REIT 28.07% | US REIT 9.10% |
| | US REIT 31.04% | US Bonds 8.44% | US Bonds 10.26% | Small Cap US 47.25% | Emerging Markets 22.45% | Commodity 25.55% | Emerging Markets 29.18% | Commodity 32.67% | Small Cap US -33.79% | International Developed 31.78% | Small Cap US 26.86% | Small Cap US 5.60% |
| | US Bonds 11.63% | Small Cap US 2.49% | US REIT 3.58% | International Developed 38..59% | International Developed 20..25% | US REIT 13.82% | International Developed 26.34% | International Developed 11.17% | Large Cap US -37.00% | US REIT 28.46% | Emerging Markets 16.36% | Large Cap US 5.01% |
| | Small Cap US -3.02% | Emerging Markets -4.19% | Emerging Markets -7.97% | US REIT 36.18% | Small Cap US 18.33% | Emerging Markets 13.54% | Small Cap US 18.37% | US Bonds 6.97% | US REIT -39.20% | Small Cap US 27.17% | Large Cap US 15.06% | International Developed 4.98% |
| | Large Cap US -9.1% | Large Cap US -11.89% | International Developed -15.94% | Large Cap US 28.69% | Commodity 17.28% | Large Cap US 4.91% | Large Cap US 15.79% | Large Cap US 5.49% | International Developed -43.38% | Large Cap US 26.46% | Commodity 9.03% | US Bonds 2.72% |
| | International Developed -14.17% | International Developed -21.44% | Small Cap US -20.48% | Commodity 20.72% | Large Cap US 10.88% | Small Cap US 4.55% | US Bonds 4.33% | Small Cap US -1.57% | Commodity -46.49% | Commodity 13.49% | International Developed 7.75% | Commodity 2.71% |
| LOWEST RETURN | Emerging Markets -31.8% | Commodity -31.93% | Large Cap US -22.10% | US Bonds 4.10% | US Bonds 4.34% | US Bonds 2.43% | Commodity -15.09% | US REIT -17.56% | Emerging Markets -54.48% | US Bonds 5.93% | US Bonds 6.54% | Emerging Markets -.45% |

Large Cap US is defined as the S&P 500 Index, Small Cap US is defined as the Russell 2000 Index, US Reit is defined as the Dow Jones US Select REIT Index, International Developed is defined as MSCI EAFE Index, Emerging Markets is defined as the MSCI Emerging Index, Commodity is defined as the S&P GSCI and US Bonds are Defined as the BarCap US Agg Bond Index. Indexes are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

**Market returns are totally random and unpredictable.**
**Past returns are primarily useful as a measure of risk; as a predictor of future performance they are useless.**