



# NORTHWEST CRITERION ASSET MANAGEMENT, LLC

34 Chambers Street, Princeton, NJ 08542 • 609-924-4488 • FAX 609-924-1155 • [www.nwccriterion.com](http://www.nwccriterion.com)

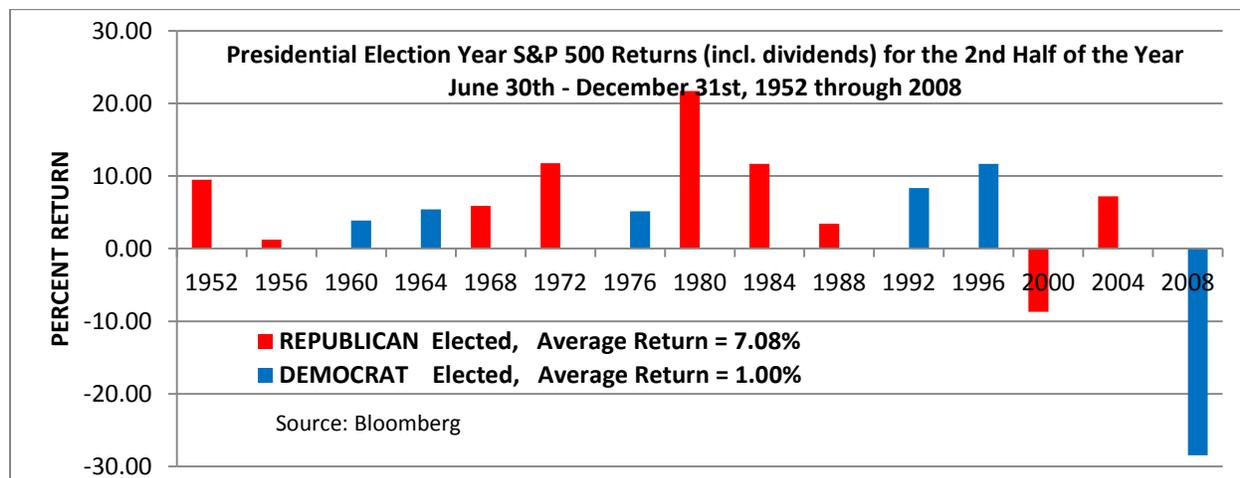
July 30, 2012

Dear Client,

Europe's troubles have been a psychological drag on the markets for some time, and lately have also been a financial drag on corporate earnings. S&P 500 earnings had been on a steady upswing for the last ten quarters. Thus far in this quarterly reporting period 66% of reporting companies have exceeded bottom-line (profit) expectations, but only about 40% have exceeded top-line (revenue) expectations, and a number of firms are guiding revenue estimates lower for the very near future. This development may make it difficult to break through the early-April high of 1419 on the S&P 500 without some surprising developments.

In spite of the anticipation of slowing earnings, the domestic equity market has rallied strongly from its lows in early June. Fed Chairman Bernanke appeared before Congress and confirmed the Federal Reserve would do what it must to bolster economic activity. More surprisingly last Thursday night, and with a more dramatic result for the markets, Mario Draghi, the President of the European Central Bank declared, "Within our mandate, the ECB is willing to do whatever it takes to preserve the euro and, believe me, it will be enough." Germany's Chancellor Angela Merkel and France's President François Hollande said Friday that they were "deeply committed" to the euro zone and "determined to do everything to protect it." Time will tell if these three leaders will be able to do what they think needs to be done, but for the first time in a long while European leaders appear to be leading.

Speaking of politics, we thought it would be interesting to see how the S&P 500 Index performed from June 30<sup>th</sup> through December 31<sup>st</sup> during the presidential campaigns of the last 60 years. Of those 15 election periods, 13 produced positive returns and only two produced negative returns (Bush 2000, Obama 2008). The average return of 7.08% during a Republican victory was substantially higher than the 1.00% for a Democratic one.



Recently, we made some changes to our portfolios and did some rebalancing. In the Dividend Portfolio we sold our holding of R.R. Donnelley & Sons (RRD). In spite of its consistent and hefty dividend, the stock displayed more volatility than we were willing to accept in a conservative portfolio. In the Equity Select Portfolio we sold Lexmark International (LXK) after the company guided earnings lower, and we sold Cliffs Natural Resources (CLF) as its earnings came under steady pressure. This leaves most accounts with 5%-10% cash positions. Net of our fees through July 27<sup>th</sup>, our Dividend Portfolio was up 8.7%, the Mutual Fund Mix was up 3.6%, and our Equity select Portfolio was down 4.2%. This while the S&P 500 (including dividends) was up 11.6%.

Thank you for letting us manage your portfolios and please contact us with any questions or comments.

Michael A. Camp  
Principal

Joseph F. Hunt  
Principal