NORTHWEST CRITERION
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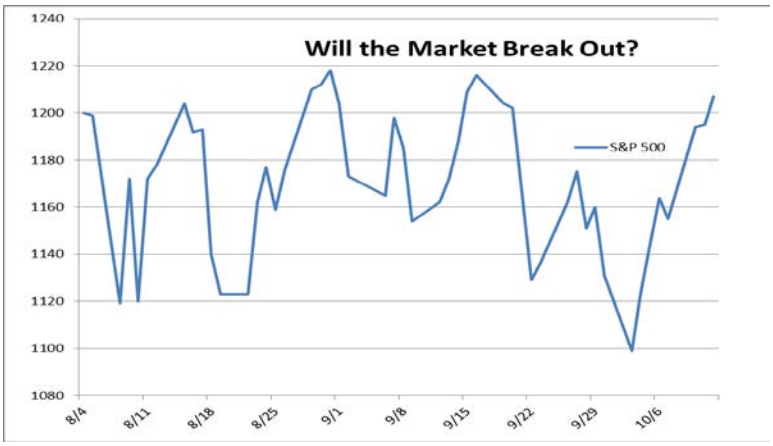
Dear Client,

We have made no significant changes to our portfolios in the past month and with market volatility remaining high we have chosen to stay patient with our cash balances. The cash will be put to work as stability returns and a resolution to the European debt crisis becomes clearer. Even if these conditions improve, the markets may be held hostage to the progress of the Congressional "Super Committee" charged with identifying by November 23rd at least $1.2 trillion in savings over the next 10 years. The damage done to financial markets and consumer confidence in late July and early August as Congress wrangled over the debt ceiling is still fresh in people's minds. On the heels of that "agreement" the third quarter was very difficult and volatile.

YTD through 10/11/11 the S&P 500 is down 3.4% (including dividends). Two of our strategies are beating the S&P and one is trailing. We are very pleased to report the Dividend Portfolio (net) is actually up 5.9%, more than 9% ahead of the S&P! The Equity Select Portfolio (net of fees), which is also ahead of the S&P, is down 2.8%. Our Mutual Fund Mix Portfolio (net) is down 5.8%, due to the performance of its holdings in a commodities and China. The Dividend Portfolio has been a successful portfolio for income-seeking clients, and a strategy that has become a very popular approach for many other money managers, as well, over the past year or two. Stocks with steady and growing dividends have a cushion under their prices in declining markets. To illustrate this, during Q3 2011 the S&P 500 was down 13.9%, while our Dividend Portfolio was only down 4.3%.



The S&P 500 Index has been in a range of 1100-1220 since early August (see graph at left) and feeling very bad at 1100 and very good at 1220. The market is now at the top of that range and threatening to break out after rallying strongly since October 4th. The markets are also displaying a tendency to react violently to rumors and statements relating to the debt crisis facing Europe. In the past ten days, the statements emanating from Sarkhozy and Merkel, and the votes to approve the European Financial Stability Facility (EFSF) have given the markets more confidence that Europe is committed to managing the sovereign and banking crisis, even though the statements are short on details. They promised to have a plan ready to be unveiled at the G-20 meeting in early November, but that still leaves time for other disagreements to arise. We should also remember in the midst of the confusion that it is in everyone's (Europe, US, China, et al) best interests to keep the global financial and economic system functioning smoothly.

Recently, we actually received better-than-expected economic reports on a number fronts, including non-farm payrolls. These numbers aren't heralding a boom in our economy, but they have given pause to the double-dip talk. We have also entered earnings season and corporate profits are expected to remain healthy. In any case, the macro numbers are playing a secondary role to the finances and politics of Europe. We see good value in the equity markets, but it remains to be seen if we will see a breakout from the recent trading range.

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

Michael A. Camp
Principal

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Principal