NORTHWEST CRITERION
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Dear Client,

We have made one change to our portfolios since our last letter. In our Equity Portfolio we sold Biogen Idec Inc. (BIIB) on April 21st at $100.74 after its first quarter earnings were released. This represented a return of over 96% since we first started buying BIIB in September 2009 at $51.14. While the earnings release was only slightly above expectations, the company reported very good trial results from an oral multiple sclerosis pill called BG-12, and the stock rose more than 15% from the prior day's close. The same study results had already been reported on April 11th when the stock was trading around $75. With the stock trading above our target price, we sold our holdings. At this point, the Equity Select Portfolio contains over 20% in cash, which we intend to reinvest.

Although the equity markets and our portfolios are slightly off from recent highs, all three of our strategies are up for the year. Net of our fees through May 18th, the Equity Select is up 11.0%, the Mutual Fund Mix is up 3.8%, and the Dividend Portfolio is up 9.1%, while the S&P 500 is up 7.3% (including dividends).

As far as the markets go, we continue to see the best relative value in the equity market rather than the fixed income or commodity markets. As you know, we believe earnings are crucial to the level of equity prices, and earnings have continued to show improvement while exceeding expectations. According to Bloomberg News, through May 12th 67% of the 456 S&P 500 companies that had announced earnings reported beating the estimates of analysts. In our Equity Select Portfolio 69% of the companies beat the estimates, and in the Dividend Portfolio 71% beat the estimates. Expectations for earnings and revenues remain positive, as well. Data compiled by Bloomberg shows expectations of a 19.9% increase in earnings of the S&P 500 companies for Fiscal Year 2011 over 2010. Additionally, the estimate for revenue growth is a 9.7% increase in FY 2011 over FY 2010. This combination of solid top-line (revenues) and bottom-line (earnings) growth should provide a good base for the equity markets in the next few quarters. It was only a few quarters ago that the bears were skeptical of the market since earnings were growing based only on cost-cutting while revenues were stagnant.

For those of you who have fixed income investments away from those at Northwest Criterion, we encourage you to review them for alternatives, since interest rates are at historically low levels. In our opinion the US Treasury bond market continues to trade expensively despite enormous fiscal problems, growing inflation fears, the approaching end of the Federal Reserve's QE2 program, and continued concern about the value of the dollar. With UST 2-year notes near 0.57%, 5-year notes below 1.90%, and 10-year notes at 3.22%, there appears to be little room for error investing in these. To be fair, fears of a double-dip recession are helping drive these rates lower, but such a development would only worsen the difficult fiscal situation in which the US finds itself.

We aren't ignoring the bad news that still exists in the housing market, the sluggish improvement in the labor markets, various natural disasters that have occurred, ever-present terrorist threats, or the challenges that exist for our Congress to address deficits. We just believe that the equity markets still have enough companies with significant earnings power, solid balance sheets, and which provide good relative value, to continue the rally that began in March 2009.

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