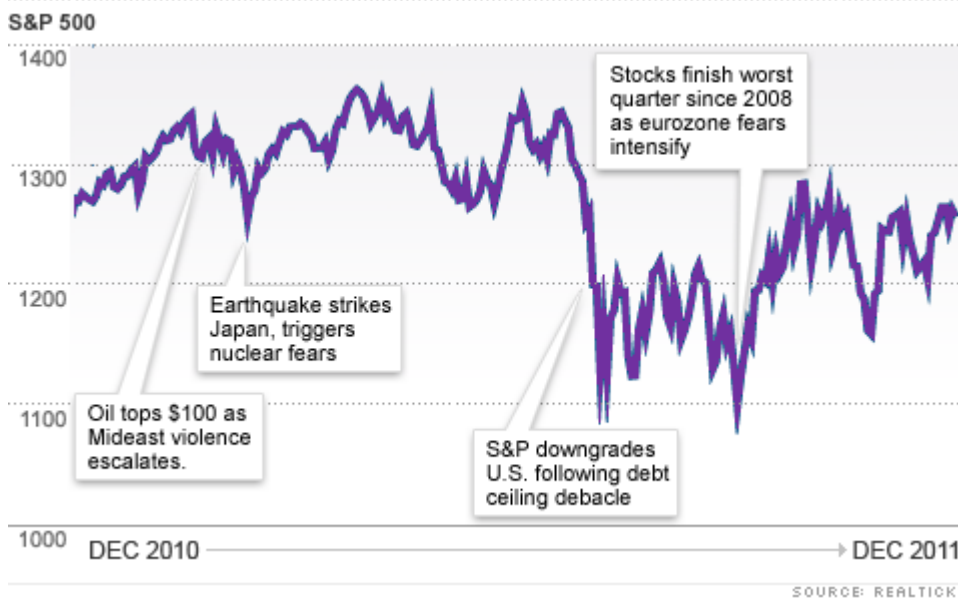




MARKET OVERVIEW: A Wild Ride

United States

The three main U.S. stock indexes offered something for bulls, bears and the indifferent this past year: the Dow was up, the S&P was flat and the Nasdaq was down. And the ride from the beginning of the year through Friday was volatile and filled with the unexpected. It came down to the very end, but in the final minutes of 2011 day trading the Standard & Poor's



500 stock index closed the year virtually unchanged from where it closed December 31st, 2010. With dividends, the index returned just over 2% for the year. The S&P 500 final level was 1257.60. At its peak in April, the S&P had climbed more than 8%. But by October, at the lowest levels of the year, it was down more than 12%. On a price basis alone, the full-year percentage decline of 0.0028%, was the smallest annual move since at least 1947, according to preliminary S&P calculations. S&P Indices scrambled after the close of trading to determine an extra decimal place in the 1947 data to figure out which was the slimmer move of the two years. Since 1928, the S&P 500's total return in a given year has been between minus 5% and plus 5% only nine prior times, first in 1934 and

U.S. Growth Leaders Portfolio Top-Ten Holdings

- 1) Exxon Mobil
- 2) Roche
- 3) Pepsi
- 4) Gilead Sciences
- 5) Time Warner
- 6) Starbucks
- 7) Transocean
- 8) Northern Trust
- 9) Franklin Resources
- 10) Merck

U.S. Value Leaders Portfolio Top-Ten Holdings

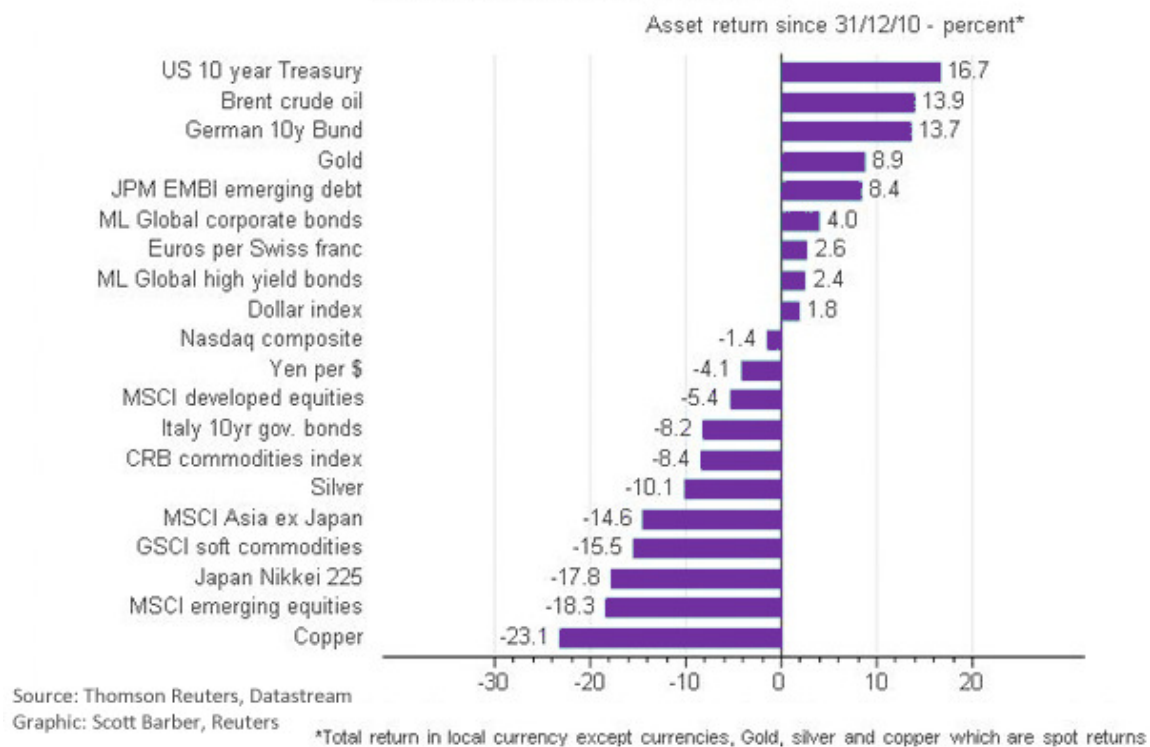
- 1) Verizon
- 2) GlaxoSmithKline
- 3) Chevron
- 4) Intel
- 5) Bristol Myers
- 6) USB Bank
- 7) Medtronic
- 8) State Street Bank
- 9) Cisco
- 10) Total SA

Healthcare Hedge Portfolio Top-Ten Holdings

- 1) Eli Lilly
- 2) Stryker
- 3) Zimmer
- 4) Medtronic
- 5) Merck
- 6) Laboratory Amer.
- 7) Roche
- 8) Carefusion
- 9) Teva
- 10) Novartis

most recently in 2005. Single digit stock returns are indeed rare, either on the positive or negative side. The sectors that performed best in the past year were the stable utilities, consumer staples, and health care. These three areas of the market finished 2011 as the S&P 500's top performing sectors, with all three gaining more than 10%. Financial and material stocks notched the biggest declines. After soaring to a record \$1,888.70 an ounce in August, gold prices sank 17% through the end of the year, ending up 10% for 2011 at \$1,565.80. Holding 10-year Treasury bonds earned investors a 16.7% return in 2011, and owning 30-year government debt earned 35%, according to Barclays Capital. The bond market gave investors the biggest calendar-year positive return since the 13.7% recorded in 2008. U.S. junk bonds struggled as credit spreads widened, offsetting higher interest payments. The junk bond category posted a 2.4% gain over 2011.

Asset Returns In 2011



Europe

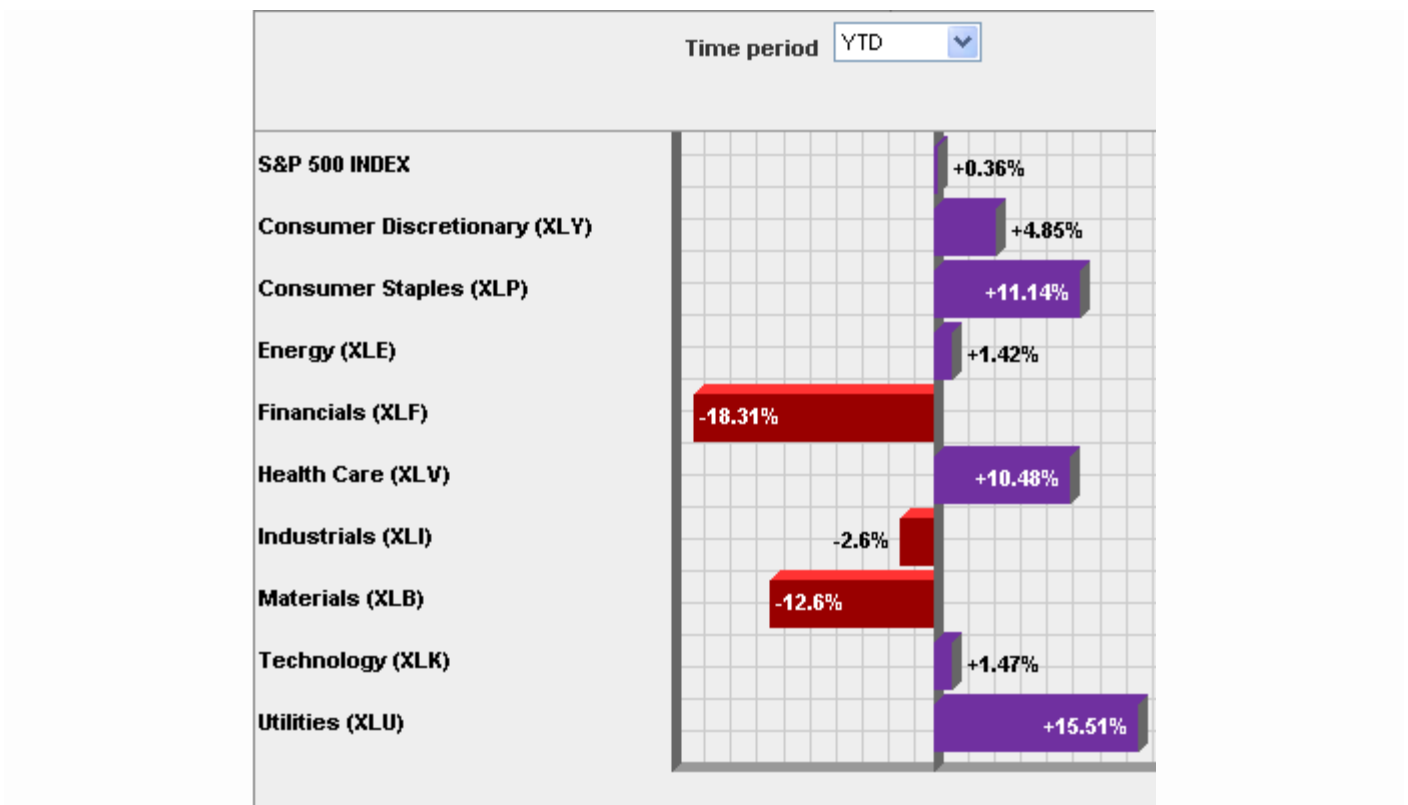
Fears the euro zone crisis would lead to debt defaults pushed European markets down much harder than the U.S. The FTSE Eurofirst 300 index dropped 11% in the past twelve months, although many of the developed markets fared much worse. Germany's DAX fell 14.7% last year while the French CAC-40 ended 2011 17% lower. Britain's FTSE was off 5.6% by year end. One of the grave issues in Europe in 2011 was high government bond yields of the PIIGS countries; Portugal, Ireland, Italy, Greece, and Spain. Yields on Spanish and Italian bonds surged above 6% in July 2011 and climbed further in November at the peak of euro zone concerns. As the year ended, there was a strong contrast in the performance of Italy and Spain, with 10-year Italian debt yielding over 7%, up from 4.8% in January, while Spain's 10-year yield has fallen slightly to 5.1%,

down from 5.4% at the start of the year. On the reverse side, investors powered big rallies in German and United Kingdom bonds this year, with 10-year German Bund yields falling to a low of 1.6% in September from a high of 3.4% in April, while 10-year gilt yields fell below 2% for the first time after starting the year at 3.4%. Both German and British bonds were boosted by the safety play of cash moving into more secure assets, despite the paltry yields.

Asia

The MSCI Asia Pacific index, the region's broadest gauge, declined 18% in the past 12 months. South Korea's Kospi lost 11% of its value last year closing at 1,826.37 while Japan's Nikkei fell 17% to its lowest close since 1982. Those two markets had better results than most stock exchanges in Asia. China's benchmark Shanghai Composite Index endured a 21% collapse for the year as the impact of Beijing's multibillion-dollar stimulus faded and the government tightened curbs on lending and investment to cool blistering economic growth. Hong Kong's Hang Seng Index finished at 18,434.39 — a precipitous slide of 19.7% from a year ago. Singapore's Straits Times Index took a 17.5% dive when it closed at 2,646.35. Even the Australia market suffered, as commodity prices plummeted in the second half of the year. The Australian S&P ASX 200 ended the year at 4,140.4 — 14.5% lower for 2011.

SURVEYING THE SECTORS



HEALTHCARE

The normally defensive healthcare sector stood out in calendar year 2011. The sector had the third best return of any of the nine major sectors. Only utilities and consumer staples did better in the past twelve months. The latter part of 2012 pointed to signs of improving demand, with personal health-care expenditures exceeding gross domestic product growth in the second and third quarters of 2011. Sequential health-care spending should continue to outpace GDP growth through 2012 as private health-care spending continues to recover. Commercial insurance enrollment has improved in consecutive years, albeit at a perambulator pace. And with unemployment levels gradually subsiding, the enrollment figures are likely to continue to cultivate. Share buybacks became the preferred capital-allocation strategy for the sector in 2011 as many firms were trying to take advantage of depressed share prices as well as synthetically inflate the subpar earnings growth. Healthcare firms started aggressively buying back stock in the past two years. Healthcare firms are now spending nearly 50% of excess cash flow towards stock buybacks, a ten year record. This buyback policy was particularly ubiquitous among medical-device firms, where stock prices have continued to lag the market averages. Many of these firms spent over 2/3 of their free cash flow on buying back stock. This includes several firms owned in our stock portfolios including Medtronic, Zimmer, and St. Jude Medical.

In 2011, there was also a plethora of mergers & acquisitions within the healthcare sector. Major deals included Johnson & Johnson's acquisition of Synthes and Pfizer's acquisition of King Pharmaceuticals. The large generic drug companies also participated in the merger frenzy. Teva acquired Cephalon while Watson Pharmaceuticals acquired generic company Specifar Pharmaceuticals to expand and strengthen its attendance in Europe. One theme continued as well, the purchase of biotech. France's Sanofi acquired biotech company Genzyme Corp. Our favorite acquisition of the year was completed by our top holding Gilead Sciences. The biotech firm acquired Calistoga Pharmaceuticals, which focuses on developing therapies to combat cancer and inflammatory diseases. We think the combined firm will be a powerhouse biotech for years to come. Alongside Gilead, our other top holding in the sector is Roche. We added to our position in Roche during the November market selloff, making Roche a top three holding. Roche has one distinct advantage over many other pharmaceutical firms, it is the least exposed to generic competition over the next five years. Roche's patents don't begin to expire until 2013--when Rituxan loses protection in Europe. However, the rest of the drug stable is protected through most of the decade. Roche's blockbuster antibody division is the best within the industry. These new drugs could substantially lessen hospital costs and add to expediency of results. Roche also has an excellent pipeline of drugs beyond antibody, including products to treat schizophrenia and hepatitis C. With the Genentech merger integration starting to yield sizeable synergies, we think Roche's drug portfolio and industry-leading diagnostics combine to create a strong joueur within the industry.

ENERGY

The energy sector had a slight gain for the year, up just over 1%. This was primarily due to the price of oil remaining at an elevated level, despite the global economic crisis. Geopolitical events have supported the price of oil all year, and with recent Iranian retaliation over trade embargos brewing in the Middle East, the price of oil will most likely remain elevated. The flip side of this argument is Europe most likely will suffer a recession in the first half of 2012, while there are also mounting concerns about China's growth outlook. A European recession would pull a lot of oil off the daily market as demand recedes. However, the European economy is less oil-intensive than here in the states, thus it would be more disturbing to the oil markets if the U.S. also went into recession. At this point with fourth quarter GDP expected to be strong in the United States, a recession does not seem on the horizon. A slowdown in China would have a much bigger impact than a recession in Europe.

Despite the mixed picture on the price of oil for 2012, one theme that will still be strong is continued oil exploration in challenging areas of the world. Today's oil is harder and riskier to find. This has led us to overweight the deep water drillers like Transocean and Diamond Offshore. The service companies will also benefit. Our new entry into the growth portfolio in the fourth quarter was Baker Hughes. Baker Hughes provides a wide variety of oil field services, such as directional drilling, oil field chemicals, drill bits, and electronic submersible pumping systems. It operates in more than 90 countries, serving oil majors, exploration and production companies, and national oil companies. We believe Baker Hughes represents a very attractive opportunity to benefit from secular trends in the oil-services sector alongside a reboot in international growth starting in 2012. The energy firm recently bought pressure pumping provider BJ Services, which filled some of the chief holes in its product portfolio. Baker Hughes should benefit from the trends toward drilling more complex onshore and offshore wells as well as international oil and gas companies seeking to boost reservoir recovery rates. In addition, we think Baker Hughes will show significantly better results in the first quarter of 2012 as its Canadian operations continue to recuperate from a difficult season, which damaged Baker Hughes' North American results in 2011. Baker Hughes trades at only 9 times our estimate of 5.25.

TECHNOLOGY

As with energy, the technology sector had a slight gain for the year. While end-market demand has certainly weakened in key tech areas, including several industrial tech segments, we believe the current downturn in semiconductors is more of an indication on the deeply cyclical nature of the industry. The recent flooding in Thailand has hampered hard disk drive production, which has ultimately affected personal computer sales. The weakness spread throughout the sales chain, producing the selling of many key semiconductor companies during the second half of the year. Overall demand for tech remains decent, especially among consumers. The new smartphones and tablet PCs have been the primary driver of demand. Obviously, Apple has been the prime beneficiary, but the whole category is showing tremendous growth. Although we own Apple in your portfolios, we have also concentrated funds within the component makers of these new fad devices. This

includes Broadcom, Intel, Texas Instruments, Xilinx, and the newly purchased Altera. Altera is the second-largest designer of programmable logic devices. Altera currently holds the number-two position in share behind Xilinx. We like both firms because the PLDs market is essentially a duopoly. PLDs are a type of chip for which circuitry can be configured and reprogrammed by electronic device designers to suit their particular needs. PLDs are continuing to take market share away from the basic ASIC chips, as per-unit costs of PLDs are dropping. PLDs have much more flexibility for the manufacturer versus ASICs. Both Xilinx and Altera will benefit from strong tailwinds associated with the wireless infrastructure market. Wireless carriers such as Verizon are rapidly expanding their 4G networks, and will thus need additional complex chip components like PLDs to satisfy the immense data demands of their smartphone customers.

SIPCO PORTFOLIO REVIEWS

U.S. GROWTH LEADERS PORTFOLIO



4 Stars

Net of Fees Returns	2006	2007	2008	2009	2010	2011
SIPCO U.S. Growth Leaders	15.56%	10.85%	-31.88%	40.10%	10.49%	-5.28%
S&P 500 Index w/dividends	15.79%	5.49%	-36.99%	26.46%	15.06%	2.11%

Our U.S. Growth Leaders portfolio had a difficult year as several of our themes did not materialize. This included a rebound in financial shares, medical device, and deep water drilling firms. Our financial sector holdings, as a group, were the worst performers in 2011. Goldman Sachs, Franklin Resources, Northern Trust, Bank of NY, and Nomura all fell by 20% or more during the past twelve months. We repositioned the portfolio within the financial sector during the last three months of the year, selling Goldman Sachs and buying Charles Schwab. We were concerned with Goldman's future ability to produce outsized earnings with the new Dodd Frank legislation. Schwab has a better profile and more stable earnings and trades at a significant discount to our fair value. Our energy holdings also had difficulty during the year. Transocean dropped 60 % in value over the past twelve months as earnings were hit by increased spending in the Gulf to modernize their drilling fleet. We have so much confidence in the future of the firm and the long term prospects for deep water drilling companies, we added to our position at the end of the year. Priced at only \$38 a share, Transocean now discounts a bleak future in oil drilling. This overly pessimistic view is now consensus, and 2012 should offer a remarkable recovery in the share price. Our other energy holdings had mixed performance. Exxon Mobil excelled, rising by 18%. Devon Energy, a firm also tied to exploration, fell by 17%. We earlier this year had raised cash from the energy sector by selling the weakest candidate EOG Resources. We utilized that cash to purchase the aforementioned Baker Hughes. The technology sector was up slightly for the year, but with a divergent picture. Apple (up 14%), Xilinx (up 12%) and Google (up 8%) were our yearly winners. On the negative side of the ledger, Oracle cascaded 17%, Symantec dropped 9%, and summer purchase Broadcom fell

6%. Within the consumer sector, we had two standouts including Starbucks and Time Warner. The stocks advanced by 42% and 18%, respectively. Within healthcare, Cardinal Health, Gilead, and Merck were all single digit winners, while Medco and Zimmer dropped by low double digits. Coca Cola was also a nice winner in 2011, advancing by nearly 20%. We took advantage of the largess gain in this consumer giant and swapped into Pepsi. Pepsi stock has trailed Coca Cola now for two years, and offers a much more compelling valuation as Coca Cola now trades at a 30 % premium to its rival. We like Pepsi's prospects for 2012 along with its higher 3% dividend yield.

U.S. VALUE LEADERS PORTFOLIO  4 Stars

Net of Fees Returns	2006	2007	2008	2009	2010	2011
SIPCO U.S. Value Leaders	20.26%	0.24%	-31.44%	23.93%	12.83%	5.43%
S&P 500 Index w/dividends	15.79%	5.49%	-36.99%	26.46%	15.06%	2.11%

Our value portfolio had a much better year and outperformed the market by over 3%. Performance was led by several areas, including high dividend healthcare stocks. Bristol Myers led the pack, advancing by 36% during the past twelve months. Eli Lilly and GlaxoSmithKline also fared very well, advancing by 24% and 21% respectively. All three firms had moderately strong earnings along with solid news on the pipeline front. These three firms also have maintained dividend yields above 5%, which is very attractive in a low yield environment. Other strong performers were our two HMO stocks, Wellpoint (up 16%) and Cigna (up 14%). Our lone poor performers in the value portfolio was Medtronic, which fell 4%. Within energy, Chevron was the standout advancing by nearly 20% in value. French firm Total SA dropped 5%, dragged down by negative performance in the European market. We took advantage of the drop in the deep water drilling firms like Transocean and added competitor Diamond Offshore. Diamond is the second largest deep water driller, and also meets our requirement of entrance into the value portfolio by paying a solid 3% dividend yield. Our underweight in the financial sector also was a benefit for the value portfolio. We started the year at a single digit exposure to financial firms as we felt risk was high and dividends were low. As several financial firms reinitiated dividends, we slowly added to our positions in the year. We added USB Bank in Q1, J.P. Morgan in Q2, and Travelers in Q3. All three we believe are first in class within the sector with solid balance sheets and sustainable dividends. We ended up, with proper timing, making money on two of these three financial firms. USB was up 10% since purchase, while Travelers rose nearly 15%. Outside of our favored sectors, utilities shined. Southern and Duke Energy each advanced by more than 20% during 2011. Utilities were favored for the high yield and consistent earnings. Hershey rose by 31% and Verizon by 18%. Poor performers included Ford (down 15%), New York Times (down 13%), and Sprint (down 33%). Overall, our largest holdings in the portfolio that maintained enhanced dividends drove the excellent performance.

ECONOMIC REVIEW: An Anemic Recovery begins with Housing

The economic year 2011 began on a strong note of buoyancy. In January 2011, the consensus forecast of 50 top economic professionals estimated an annual GDP (gross domestic product) rate of 3.2%. But by the end of first quarter, that optimism had vanished as data showed the economy had already started decelerating at the end of 2010. January 2011's turned out to be one of the most imprecise. First-quarter GDP rose by only 0.4% while second-quarter advanced by a scant 1.3%. Third-quarter GDP now looks to be 1.8%, unless revised upwards. Consensus for this quarter's growth is 2.6%. This is a nice improvement over the pedestrian growth in the first half of 2011, but it is also not superlative. The bottom line is this recovery is one of the slowest since WW2. It has taken nine calendar quarters since the recession ended in the second quarter of 2009 for real gross domestic product to climb back to its fourth-quarter '07 peak. Growth never accelerated to the same degree as in the 1970s or 1980s after recessions. The recession that began in mid-1981 lasted almost as long as the 2008/2009 downturn (16 months vs. 18 months) and actually produced higher peak unemployment (10.8% vs. 10.1%). Throughout the first 27 months of the 1983 recovery, total employment increased by 7.5%, or 7.4 million jobs. In contrast, total employment in September 2011 was still 13,000 lower than June 2009. This fact has been obviously noted over and over in the press as *the jobless recovery*. In nine calendar quarters of recovery, GDP will have grown by an average growth rate of 2.3%. In contrast, during the first nine calendar quarters of the 1983 recovery, GDP grew at an annualized rate of 6.3%. In calculating the differences in GDP growth, the most likely culprit is housing. Housing is normally recovering at a feverish pace at this point in the cycle, taking GDP growth with it. Housing contributes to GDP in two basic ways: through private residential investment and consumption spending on housing services. Historically, residential investment has averaged roughly 5 % of GDP while housing services have averaged between 12 and 13%, for a combined 17 to 18% of GDP. The preceding 10-year boom in housing left us with too many houses, especially given the moderate pace of growth in new family households. New housing fell by 79% before bottoming out in the spring of 2009. Since then, home construction has had practically no input to economic growth. An even more imperative *raison d'être* for lukewarm consumer spending growth has been the condition of the labor market. The U.S. has lost 8-¾ million jobs since the start of the Great Recession. Job growth only started back in force in March 2010. And the growth has been sporadic. Only 1-¾ million jobs have been added in the last 18 months. It will take another five years of more consistent job growth to get back to our late 2007 high point.

Many pundits point to the government as part of the problem, with increased taxes and regulation. One unbiased organization is the Canadian based Fraser Institute's Economic Freedom Index. This index was started with the assistance of Milton Friedman. The index tracks 42 separate measures equally weighted under five different categories, including "Size of Government," "Access to Sound Money" and "Regulation of Credit, Labor, and Business." One of the positive aspects of the Economic Freedom Index, or EFI, is it tends to build arguments for both Republicans and Democrats. A higher index is generally better for the economy as the correlation between a high EFI reading and GDP growth is quite strong. Historically, the Economic Freedom

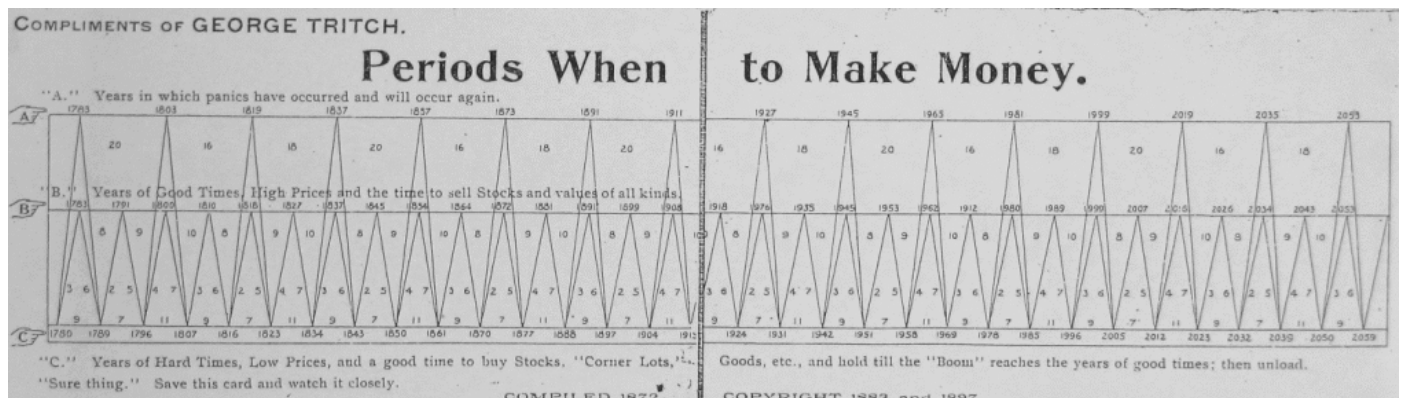
Index moved higher in the administration of Jimmy Carter, a Democrat, and even edged up under Bill Clinton. The index then began to fall under the administration of Republican George W. Bush. It was very high during the Reagan years, which preceded very strong economic growth. The one-year fall in the EFi from 2008 to '09, the most recent year for which data are available, was the largest on record. The new data will be released in early 2012, and we will watch closely the direction of the index.

MARKET OUTLOOK: The Cycle Continues

Samuel Benner, a pecunious farmer, was wiped out financially by the 1873 financial panic and a hog cholera epidemic. After retiring from his farm, he promised to find the root causes of disaster in an economy. In 1875, he published his book; *S. Benner's Prophecies of Future Ups & Downs in Prices*. In his illustrious book, charts were produced giving;

- * *an 11 year cycle in corn and pig prices with peaks alternating every 5 and 6 years.*
- * *cotton prices which moved in a cycle with peaks every 11 years.*
- * *a 27 year cycle in pig iron prices with lows every 11, 9, 7 years and peaks in the order 8, 9, 10 years.*

He came to the conclusion that a simple pattern can predict major economic market tops and bottoms. These cycles form in a recurring cycle of 16, 18 and 20 years concomitantly. If you add those three numbers, you get 54 years. The average then is an 18 year cycle (54 divided by 3). The 18 year cycle really examines the relationship between prices and commodities. As commodities become more expensive, they squeeze the profitability of companies that use them as raw materials resulting in a boom and bust scenario between the two markets. The 18 year cycle also works well with stocks. We have seen several 18 year cycles over the preceding century including the 1929-1947 cycle and the 1966-1982 cycle. In both cases, stocks were out of commission for nearly two decades. If the Benner cycle is correct, it unfortunately means that we are still in the down cycle that will most likely last until later this decade.



Our approach this year, and in year's past, has been to realize that we are most likely in this continued cycle of ups and downs. In this type of environment hypothesized by farmer Benner, an investor cannot simply ride the wave, but must make educated decisions upon the markets and asset classes. With that in mind, we think that 2012 will offer much of the same as 2011. The high degree of volatility will continue. Downside risk to the stock markets remains high. However, we feel that with this heightened uncertainty, opportunities should present themselves throughout the year. It is also prudent to have a somewhat contrarian view. Here are our 4 themes for 2012 that go against the grain;

1. Stocks do better than expected:

With a single digit return year passing us, the %age odds of another moderate return scenario is low. The average expected return by the pundits is 8%. We feel stocks are fairly valued at the moment, but a much better value than U.S. Treasury bonds. After a strong start and then a big correction, the market rallies towards year end for a double digit gain.

2. Interest rates rise:

Although interest rates could trend down the first quarter of 2012, rates bottom in April and head up by at least a half a %. Interest rates are artificially low as fear is high, and the U.S. bond market has attracted a sizeable cash inflow. We think this will reverse itself in 2012, albeit moderately. But enough where rates begin the long climb towards normalcy.

3. Dividend stocks continue to excel:

We think we are in the early innings of the dividend reach, where investors seek yield and move money out of money markets. This includes high dividend stocks and also higher yielding bonds. Although the performance discrepancy between high and low dividend stocks will not be as large as 2011, dividend stocks will continue to gather sizeable cash.

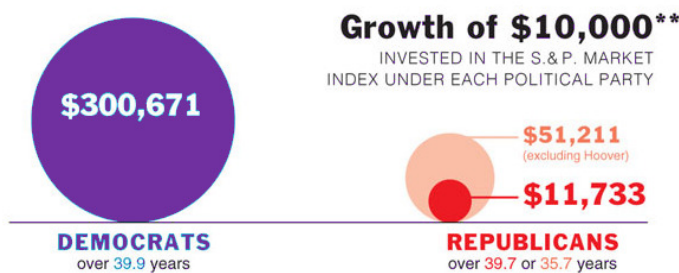
4. The election won't impact the market:

It's universal knowledge that the Republican Party is better for business, corporate profits and the stock market. But although this makes sense from many perspectives, the data does not bare it out. Here is the record of each administration since 1960 and the market's return;

- Kennedy/Johnson (Dem) administration (1961-1965) -- up 41.9%
- Johnson (Dem) administration (1965-1969) -- up 8.1%

- Nixon (Rep) administration (1969 to 1973) -- up 7.9%
- Nixon/Ford (Rep) administration (1973-1977) -- down 0.1%
- Carter (Dem) administration (1977-1981) -- down 4.1%
- Reagan (Rep) administration (1981-1985) -- up 25.6%
- Reagan (Rep) administration (1985-1989) -- up 79.0%
- Bush Sr. (Rep) administration (1989-1993) -- up 52.3%
- Clinton (Dem) administration (1993-1997) -- up 95.3%
- Clinton (Dem) administration (1997-2001) -- up 67.3%
- Bush Jr. (Rep) administration (2001-2005) -- unchanged
- Bush Jr. (Rep) administration (2005-2009) -- down 18.6%
- Obama (Dem) administration (2009 through Oct. 30, 2011) -- up 36.3%

Over six Democratic terms, the Dow Jones Industrial Average (Dow) gained 247.9%, or an average of 41.3% per term. Over seven Republican terms, the Dow gained 147.1%, or an average of 21.0% per term. Over the past 50 years, investors have made almost double the returns under Democratic Presidents as under Republican Presidents. What this means is that it is not as simple to predict future market returns by what party the President belongs too. Obviously Congress has a large part in the political process. Economic cycles happen, with recessions occurring on average once out of every five years. That cycle does not line up with the Presidential cycle. The process of returns in the capital markets is complex, and an election, even as important as the Presidency, does not mean that a Democratic election win dooms the markets.



We appreciate your continued trust and confidence. Please call with any questions regarding your portfolios.