

# SIPCO

SIPCO is an emerging investment management firm headquartered in San Antonio, Texas. Our equity product specialty is large cap value and growth. Our unique investment philosophy has been designed to provide our investors with above market performance over time with a sharp focus on downside risk. The regimented and fundamentally driven investment strategies offered at SIPCO are well suited for the institutional marketplace.



## QUARTERLY UPDATE

JANUARY 2012

### U.S. VALUE LEADERS PORTFOLIO



#### Structured to Serve

- 100% employee owned
- \$35.1 million in total AUM
- \$3.5 million in LCV product



#### Disclosure:

*SIPCO (Strategic Investment Partners LLC), is an independent investment advisory firm headquartered in San Antonio, Texas. SIPCO manages equity, fixed income, and ETF portfolios for both individual and institutional investors. The firm was founded in 1999. SIPCO's Large Cap Value Equity Composite consists of all fully discretionary large cap equity portfolios with strong earnings and value characteristics and stock capitalizations over 7.5 billion. The portfolios are concentrated in the healthcare, energy, technology, and financial sectors. The portfolios are typically invested in 30-40 equities chosen primarily from the United States. 10% of the portfolio can be invested in ADR securities from the major developed markets of Europe and Asia. For comparison purposes, the composite is measured against the Russell 1000 Value Index, which measures the performance of the large-cap value segment of the U.S. equity universe. The U.S. Dollar is the currency used to express performance of each composite. Returns are presented gross of management fees, and include the reinvestment of all income. The firm maintains a complete list and description of composites, which is available upon request from Timothy J. McIntosh, CIO, at 1-800-805-5309. SIPCO claims compliance with the Global Investment Performance Standards (GIPS®).*

#### GROSS PERFORMANCE

The **U.S. Value Leaders Portfolio** returned 12.87% for the fourth quarter of 2011. This was slightly below the return of the Russell 1000 Value Index, which rose 13.1%. On a year-to-date basis, our portfolio has returned 7.16% versus 0.39% for the benchmark.

#### Our Quarterly Performance Highlights

Our value portfolio had a much better year and outperformed the R1000V by nearly 7%. 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 performer in the value portfolio was Medtronic, which fell 4%. Within energy, Chevron was the standout advancing by nearly 20% in value. French ADR 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

**TOP TEN HOLDINGS**  
**VALUE PORTFOLIO**  
 December 31, 2011

HOLDING	%
Verizon	4.78
Chevron	4.73
GlaxoSmithKline	4.70
Intel	4.52
Bristol Myers	4.42
USB Bank	4.29
Medtronic	4.06
State Street	3.94
Cisco	3.82
Proctor & Gamble	3.75

**PERFORMANCE**  
**FOURTH QUARTER 2011**

**BIGGEST CONTRIBUTORS**

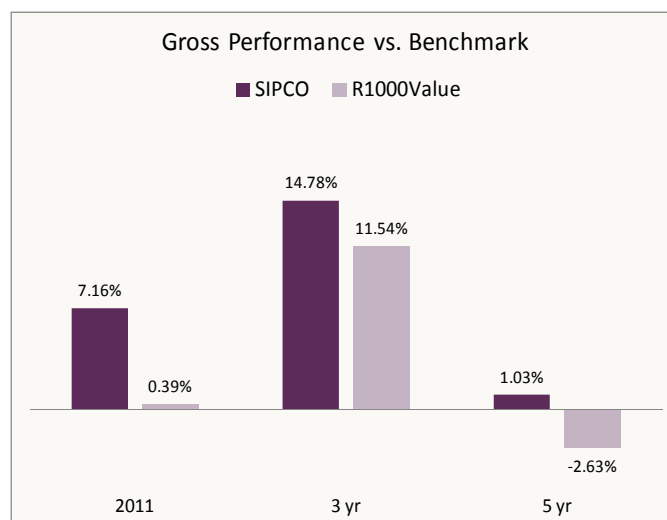
Chevron
Verizon
Travelers
Medtronic
Intel

**BIGGEST DETRACTORS**

Sprint Nextel
Ford
Diamond Offshore
New York Times
The Gap

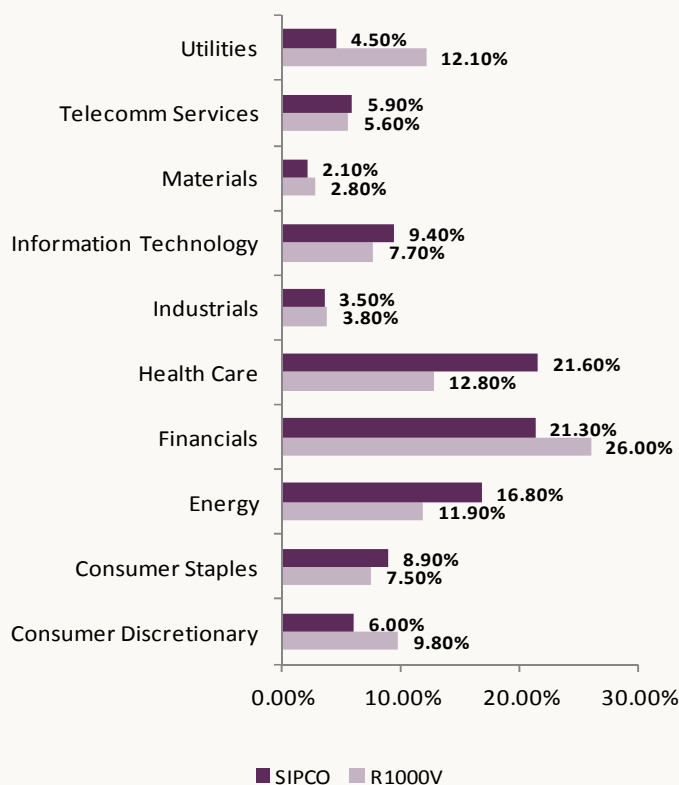
**Continued...**

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. Our two chemical firms, 3M and Dow Chemical rose by 14% and 25% respectively. Both firms produced excellent revenue gains along with dividend hikes. Hershey rose by 31% and Verizon by 18%. In services, United Parcel Services advanced by 16% in the quarter. We like UPS' international exposure and 3% plus dividend yield. 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. Cash is currently below 1% in the large cap value portfolio. We expect the relative valuation and attractive yield theme to continue into 2012.



## Sector Weights

As of 12/31/2011



### Marketing Contact

Ron Oldenkamp, President  
**Genesis Marketing Group**  
630-887-1414  
[mkt@genesis2020.com](mailto:mkt@genesis2020.com)



### Value Contrarian Style

- *High Dividends*
- *Attractively priced*
- *High conviction*
  - *Sector focus*
  - *Low turnover*

### First Quarter 2012 Outlook

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 3 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.