



CUTLER
INVESTMENT
GROUP
LLC



4th Quarter
2011

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CUTLER EQUITY FUND STANDS OUT AMONGST MARKET TURMOIL

On Friday, August 5th, after the market closed, Standard & Poor's downgraded the credit rating of the United States. When the market opened for trading on Monday morning, equity investors sold heavily on the fear that the downgrade represented a "Lehman Brothers moment." On August 8th, the S&P 500 Index finished down over 6.5%, volatility that felt much the same as the 2008 financial crisis.

In the midst of this market volatility, the Cutler Equity Fund (ticker: CALEX) stood out amongst mutual funds as a conservative, dividend-driven strategy. Similar to 2008-2009, when the market sold off aggressively, dividend-paying stocks performed relatively well compared with non-dividend payers.

We believe the results speak for themselves, but we would like to highlight that on the close of business on November 8, 2011, the Cutler Equity Fund's performance (total return) placed the Fund in the top 2% among 1,241 Large Value funds as determined by Morningstar for the past year. Morningstar rates funds based on "stars", and by this risk-adjusted measure the Cutler Equity Fund also stood out. For the overall, 3-year, 5-year and 10-year time periods ended October 31, 2011, the Fund received 4, 4, 5 and 3 stars among 1,122, 1122, 972 and 554 Large Value funds, respectively. Showing such strong results versus this peer group is something we are very proud of here at Cutler, and we believe is a testament to Ken Cutler's investment philosophy.

Past performance is not indicative of future results. Fund performance has been positively impacted by fee waivers and expense reimbursements made by the Fund's investment adviser. **Request a prospectus, which includes investment objectives, risks, fees, expenses and other information that you should read and consider carefully before investing. The prospectus can be obtained by calling 1-888-288-5374 or it can be viewed at www.cutler.com.**

*Source: Morningstar 10-31-11. For each fund with at least a 3 year history, Morningstar calculates a risk-adjusted measure that accounts for variation in a fund's monthly performance (including the effects of all sales charges), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of each category receive a Morningstar Rating™ of 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. 2011, ©Morningstar, Inc. All rights reserved. The information contained herein is proprietary to Morningstar and/or its content providers, may not be copied or distributed and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. According to Morningstar's calculations of total returns for Large Value funds, as of 11/8/2011 the Cutler Equity Fund's performance placed the Fund in the top 12% among 1,124 Large Value funds for the 3 year period, top 4% among 974 Large Value funds for the 5 year period and top 48% among 555 Large Value funds for the 10 year period. These calculations are updated daily and are subject to change.

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*"When you earn a dollar, it has gained your respect.
When you invest that dollar, the investment should reflect your respect."*

- Kenneth R. Cutler



IN SEARCH OF INCOME

This quarter's "Paying Dividends" explores a fundamental of Cutler's investment philosophy: dividends! Dividends do matter and the importance of a stable income stream to investors has been a basic tenant of the Cutler investment philosophy for over 30 years.

Dividends are beneficial twofold. First, they contribute to total return. Over the past twenty years or so, dividends were discarded by some as not a significant contributor to total return. They were thought of as appropriate for "widows and orphans", or for foundations needing to match cash flows. This is no longer the case, as the income component of the equity market's returns have once again become significant. It is worth noting that recently the S&P 500 indicated dividend yield surpassed the yield of 10-year US Treasuries. For traditional fixed income investors, the relative value of dividend paying equities versus bonds makes for a compelling investment thesis.



Erich Patten
Portfolio Manager

The second benefit of dividends is the risk-averse characteristics of dividend paying stocks. This risk aversion is derived both from the profitability necessary to pay a dividend (it is difficult to pay dividends if a company is losing money), as well as the cushion that positive cash flows contribute in a down market. Dividend paying companies tend to be less volatile than non-dividend payers, meaning that investors are "giving up" some upside in order to protect their investment on the downside. This is a trade-off that many of today's investors are willing to make.

At Cutler, we believe in the value of dividend paying securities. The intrinsic value of an investment is the present value of its future income stream. This value is directly derived from dividends. Using this philosophy, dividends are appropriate in any market, whether bull or bear or somewhere in between. Shareholders are "paid to wait" for economic recovery and stability in the marketplace. Regardless of asset class, we believe that reducing relative volatility in a portfolio is a winning strategy in the long-term.

"Paying Dividends" is a regular contribution to Cutler's Quarterly Newsletter and features rotating authorship by members of the Cutler team, presenting on topical subject matter. Look for Carol Fischer's article in our 1st Quarter-2012 newsletter.

LIGHTEN YOUR MAILBOX - SEND US YOUR PREFERENCE

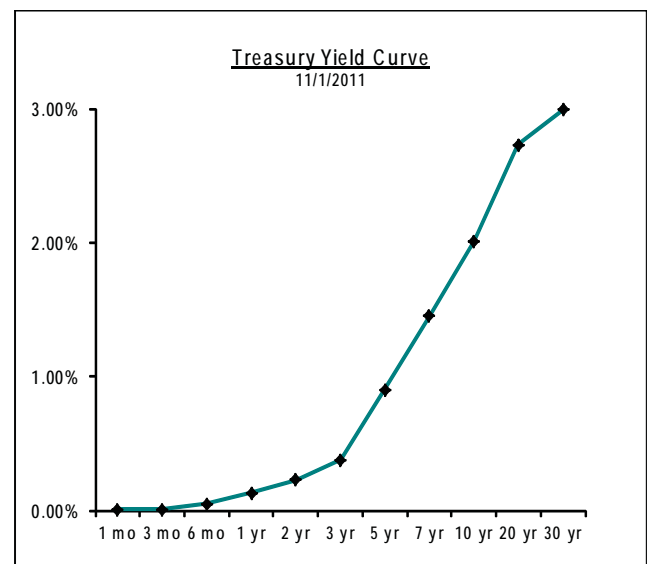
In an effort to help our clients reduce the amount of paperwork they are receiving, we have enclosed a postcard with this newsletter providing the option to receive this newsletter electronically. If you would prefer an electronic format, just provide us with your e-mail address and send back the postcard. You can also call us to let us know if this would be your preference.



FIXED INCOME UPDATE - MARKET OVERVIEW

The Federal Reserve announced “Operation Twist” on September 21, a move whereby the Federal Reserve’s portfolio’s average maturity is extended by selling short-term Treasury securities and purchasing long-term Treasury securities. The plan is aimed at lowering borrowing costs and an attempt to prevent the US economy from falling back into a recession. The move was anticipated well in advance, and the market took care of the Federal Reserve’s intention before the Fed even took one step. In addition, on August 7 the credit rating agency S&P downgraded the US debt to AA+ from AAA. This move, interesting enough, caused the Treasury market to rally, which in most other circumstances would have moved the market in the opposite direction. Interest rates in the long end fell by more than 1%, the largest decline being witnessed in the 30-year US Treasury bond as its yield fell from 4.37% to 2.91%. The greater part of that decline, 1.16% to be precise, occurred before the Fed announced its intention. Short-term rates also fell, and just the same as long-term rates, the preponderance of the decline occurred before the Fed announcement. The 3-month Treasury bill was the only sector not to experience a decline in rates, but mainly because the yield of the 3-month Treasury bill was 0.01% on 6/30/11 and it would have been very difficult, although not impossible, to post a further decline. As a result of Operation Twist and the expectation of the plan, the yield curve became flatter, as long-term rates dropped more than short-term rates. The yield spread between the 3-month Treasury and the 30-year Treasury narrowed by 66 basis points and the yield spread between the 5-year Treasury and the 30-year Treasury narrowed by 65 basis points. As can be seen, the majority of the curve flattening occurred in the 5-year to 30-year sector. This is precisely what the Federal Reserve was looking for; the question will be whether such a move will help the economy more than it hurts the banks.

During the second quarter we began to witness investors fleeing credit sectors for safer havens like the Treasury sector. The third quarter continued that process as observed by the returns of the various sectors for the third quarter. The sector with the best return was the Treasury sector with a return of 6.48%, or 3.63% better than the next best sector, which was the corporate sector. All of the other sectors, except the CMBS sector, had very similar results, ranging from 2.35% to 2.85%. The CMBS sector posted negative results of -0.86% as memories of the disastrous 2007-2008 credit crunch rushed back into investors’ recollection. Even the 3-5 year Agency sector, with its low yields, outperformed all of the other credit sectors with a 4.7% return. The surge back into Treasuries is not just a result of the faltering US economy, but also the increasing chaotic crisis that lingers in Europe. Every time that positive news springs from the European ‘troika’, there is an even stronger dose of negative news that sprouts from one or more of the countries that form the European Union. It is becoming more and more difficult to see a light at the end of the tunnel, and as a result, more investors are parking their assets in the most liquid market of the world: Treasuries.





FIRM NEWS

Cutler is pleased to welcome a new member to the team, William Beggs. Mr. Beggs will serve as a Senior Equity Analyst, and will be based out of Chicago. He holds a Bachelor of Science in Mathematics from the University of Illinois Urbana-Champaign and a Masters of Science in Management with a concentration in Finance from the University of Arizona. He has also passed all three levels of the CFA Program.

Mr. Beggs began his career in the investment industry as a performance verification specialist with the world's largest independent GIPS (Global Investment Performance Standards) accounting firm. He gained additional experience working as a Financial Analyst in the Biofuels industry. Most recently, Mr. Beggs served over three years as an examiner for the U.S. Securities and Exchange Commission in Washington DC.

With a keen eye towards mathematics and quantitative analysis, Mr. Beggs will assist in stock selection as a member of the Investment Team. He will also serve as Assistant Compliance Officer for the Cutler Trust (Mutual Fund) and Director of Consultant relations for the firm.



William Beggs
Senior Equity Analyst

UPCOMING FIRM EVENT



Cutler Investment Group client appreciation event. 11:30am on Dec 13th
Call to RSVP - Carol Fischer @ 541 770-9000

Luncheon Speaker: Herbert E. Meyer former Special Assistant to the Director of Central Intelligence and former Vice Chairman of the National Intelligence Council during the Reagan Administration.

Any performance included herein is not indicative of future results. The views in the newsletter represent those of Cutler Investment Counsel as of November 15, 2011 and are subject to change without notice. Read a fund prospectus before investing.

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