DAVID WENDELL ASSOCIATES, INC.
INVESTMENT COUNSEL

P.O. Box 21980
325 Corporate Drive
Portsmouth, N.H. 03802
(603) 427-0200
www.davidwendell.com

First Quarter, 2012

STEADY AS SHE GOES

Last summer's triple-digit swings in the stock market -- down 500, up 400, down 600 -- took their toll on investors. Some stepped to the sidelines, spooked by the turmoil, while others concluded that entire portfolios as well as investment strategies needed to be re-assessed and revamped in light of the extreme volatility.

Experienced investors, however, did not panic. They maintained their equity positions in high-quality, growing companies and even purchased shares of new companies for their portfolios. Some of the companies we recommended for purchase last year are shown in the table below, along with their calendar year results for revenues, earnings, dividends and total return (capital appreciation plus dividends):

Calendar Year Results for 2011

Company	Revenues	Earnings	Dividends	Total Return
Apple	68%	96%	nil	26%
Balchem	14	14	36%	20
Celgene	34	30	nil	14
Deere	29	40	31	-5
Ecolab	12	14	13	16
Expeditors Int'l	3	13	25	-24
ExxonMobil	27	35	6	19
Fiserv	5	13	nil	0
Helmerich & Payne	29	44	18	21
IBM	7	14	16	27
Intel	24	17	24	19
Intuit	14	32	nmf	7
Intuitive Surgical	24	30	nil	80
MasterCard	21	33	0	67
McDonald's	12	15	12	35
Microsoft	8	17	24	-5
Nike 'B'	14	13	15	15
Novo Nordisk ADR	11	24	34	4
Panera Bread	18	28	nil	40
PepsiCo	15	3	7	5
Praxair	11	42	11	14
Sigma-Aldrich	10	19	13	-5
TJX Companies	6	15	27	47
Trimble Navigation	27	18	nil	9
United Technologies	7	16	10	-5
25-Company Average	18%	25%	18%	18%
Standard &Poor's 500	9	15	16	2

Sources: Standard & Poor's, Bloomberg, Value Line
nmf = not meaningful figure

The information provided herein represents the opinions of David Wendell Associates and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

As can be seen, these companies significantly outperformed the average company found in the Standard & Poor's 500 Index last year. Their revenue growth was *twice* that of the average company and their earnings growth was *two-thirds more*. Finally, their total return for the year was *nine times* that of the S&P 500, even though a handful of the companies saw their share price decline during the year.

Why did these companies significantly outperform the average company during a year in which many Wall Street investors experienced a serious crisis of confidence?

All of these high-quality, growing companies have certain fundamental characteristics which are far superior to those of the average company. For example, our analytical work focuses on the earnings retention rate. Earnings that are retained and reinvested in a company should drive the growth of the business well into the future. Companies with high earnings retention rates tend to grow faster for longer periods of time than companies with low earnings retention rates. Over time, if a company grows at above-average rates, these superior results eventually will be reflected in the company's share price.

The table below shows the earnings retention rates for the companies since 2007, the beginning of the financial crisis, as well as the estimate for 2012 and the next five years:

Earnings Retention Rates

Company	2007	2008	2009	2010	2011	2012E	Next Five Years
Apple	24%	23%	21%	29%	34%	30%	25%
Balchem	16	15	17	16	16	17	16
Celgene	8	17	20	20	23	22	21
Deere	20	25	15	22	33	33	23
Ecolab	16	21	17	18	4	17	19
Expeditors Int'l	17	17	10	15	14	14	15
ExxonMobil	27	33	10	15	21	18	14
Fiserv	18	20	18	19	20	21	21
Helmerich & Payne	20	19	12	9	13	16	15
IBM	29	72	46	50	52	48	33
Intel	10	6	3	17	17	14	11
Intuit	25	26	24	24	31	22	18
Intuitive Surgical	16	16	15	19	19	21	26
MasterCard	33	57	40	34	40	32	21
McDonald's	12	18	16	18	22	22	21
Microsoft	33	38	26	31	32	23	23
Nike 'B'	16	17	15	14	16	18	16
Novo Nordisk ADR	20	21	20	27	30	32	32
Panera Bread	13	14	14	19	22	23	22
PepsiCo	19	22	19	16	16	15	15
Praxair	16	22	14	11	21	18	16
Sigma-Aldrich	16	20	16	16	17	17	18
TJX Companies	35	33	35	36	37	36	37
Trimble Navigation	11	12	5	9	10	11	14
United Tech.	15	22	12	14	15	15	14
25-Company Average	19%	24%	18%	21%	23%	22%	20%
Standard & Poor's 500	10	5	7	10	11	11	10

Sources: Standard & Poor's, Value Line, DWA estimates

These companies continued to reinvest in their businesses through the years of the financial crisis and recession and most stepped up their earnings retention rates in 2011. One company, Ecolab, did see its retention rate drop (and its debt increase) due to a large merger but it is expected to be back on track fairly soon. All of these companies are likely to maintain their earnings retention rates at above-average levels into the future.

Other important fundamental characteristics include the financial strength of the company as well as the amount of debt carried on its balance sheet. Just as high levels of mortgage or credit card debt limits an individual's ability to deal with changing circumstances, high levels of corporate debt reduce a company's flexibility to respond to evolving markets and business conditions, and constrains its options for growth.

Value Line's ratings for financial strength include the amount of debt as well as other factors such as a company's net income and cash flow as well as the profit outlook. Competitive factors are also considered: for example, the possibility of losing patent protection for a key product would reduce a company's financial strength rating.

Company	Debt (% of Capital)	Financial Strength	
Apple	0%	A++	
Balchem	0	A	
Celgene	17	A+	
Deere	32	A++	
Ecolab	54	A	
Expeditors Int'l	0	A+	
ExxonMobil	6	A++	
Fiserv	50	B++	
Helmerich & Payne	10	B++	
IBM	52	A++	
Intel	13	A++	
Intuit	16	A	
Intuitive Surgical	0	A+	
MasterCard	0	A++	
McDonald's	45	A++	
Microsoft	16	A++	
Nike 'B'	3	A++	
Novo Nordisk ADR	1	A+	
Panera Bread	0	A+	
PepsiCo	48	A++	
Praxair	52	A	
Sigma-Aldrich	14	A+	
TJX Companies	22	A+	
Trimble Navigation	25	B+	
United Technologies	29	A++	
		A++	44%
		A+	28
25-Company Average	20%	A	16
		B++	8
		B+	4
			100%
Standard & Poor's 500	40%	B	

Sources: Standard & Poor's, Value Line, DWA estimates

Not surprisingly, these companies carry much lower levels of debt than the average company. The vast majority of these companies are rated in the "A" category for financial strength and none have the "B" rating that the average company in the S&P 500 has.

So what does the future hold? Based on our analyses, we believe these companies should continue to grow in the years ahead. By creating new products and services and entering into or creating new markets, they should be able to continue expanding their revenues. And their management teams will likely continue to increase their earnings and dividends at rates superior to the average company:

Historical and Estimated Future Growth Rates

	- - - - - Revenues - - - - -		- - - - - Earnings - - - - -		- - - - - Dividends - - - - -	
Company	Last Five Years	Next Five Years	Last Five Years	Next Five Years	Last Five Years	Next Five Years
Apple	36%	28%	65%	25%	nil	nil
Balchem	25	20	24	18	34%	25%
Celgene	39	20	73	25	nil	nil
Deere	8	13	10	15	15	10
Ecolab	10	12	12	15	12	10
Expeditors Int'l	10	12	14	12	27	12
ExxonMobil	8	10	4	10	9	7
Fiserv	11	12	13	14	nil	nil
Helmerich & Payne	19	15	19	20	7	12
IBM	7	9	16	12	26	14
Intel	5	12	2	15	26	13
Intuit	14	15	16	16	nil	20
Intuitive Surgical	40	25	41	20	nil	nil
MasterCard	15	15	44	20	---	5
McDonald's	8	12	18	15	30	12
Microsoft	15	15	12	14	22	17
Nike 'B'	10	10	12	12	18	10
Novo Nordisk ADR	17	18	22	20	27	12
Panera Bread	23	20	17	22	nil	nil
PepsiCo	12	10	9	10	16	5
Praxair	10	12	14	15	23	12
Sigma-Aldrich	12	12	12	12	16	10
TJX Companies	11	12	16	15	22	13
Trimble Navigation	11	15	9	25	nil	nil
United Technologies	11	10	11	10	17	11
25-Company Average	15%	14%	20%	16%	14%	9%
Standard & Poor's 500	3	4*	6	9*	2	5*

(*Denotes long-term average)
(S&P 500 figures include all companies in the Index)

Sources: Standard & Poor's, Value Line, DWA estimates

Over the years, financial markets around the world have become more complex and interconnected, creating additional challenges for investors. Periods of heightened volatility, such as those seen last summer, can easily distract investors into "second guessing" or abandoning their investment strategy. But those investors who maintain their focus on fundamental characteristics and invest in high-quality, growing businesses are able to maintain a steady, confident and successful investment course even through the worst financial storms.