



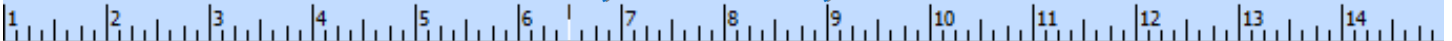
Nestlerode & Loy^{inc}

investment advisors

Research-based Solutions • Personal Attention

Pay Attention, Pay Attention, and Pay Attention

Measure, Measure, Measure



This is what we do as we manage your wealth. After more than 45 years of experience in the investment business, I know of no better way to protect your money from the problems in the investment markets. There is no magic strategy or diversification tactic that protects every portfolio from the ever-changing political, economic, financial and market circumstances that will impact your investments. Even the infamous Bernie Madoff, with tens of billions of dollars under management, found that cheating his clients was far easier than doing the hard, honest work of good portfolio management.

Many investment professionals direct their clients' funds to other portfolio managers, either through mutual funds, insurance companies or outside investment managers and then proceed to gather more assets. I have personally witnessed the flaw in this model as some mutual funds fail, insurance companies go into bankruptcy and portfolio managers move on without notifying their shareholders. Many banks gather assets from their clients and then fall asleep at the switch for their existing clients because they are paid to gather assets, not to effectively manage them. Other commission-oriented investment firms have placed local clients in illiquid investments because the investment paid the representative's firm outlandish (ten percent) commissions, an inappropriate amount and a decided conflict of interest between the representative and his/her client. Redress for the client is nearly impossible in this day and age even though such actions in my estimation are at the very least unethical and are often financially damaging to the interest of the client.

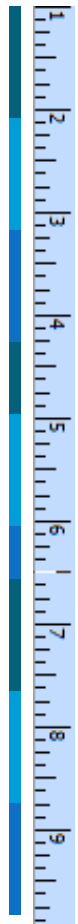


The bottom line is that we measure your portfolio performance daily, watch the performance of the investments we use to generate return for your portfolio and take appropriate action as the markets dictate. To do this we buy only securities that are traded and priced daily, so that we can effectively measure your portfolio and so we can be alerted to prices changes that might indicate all is not well with a particular position. Further, we take small positions in each investment so that we can sell with minimal disturbance to market prices. This is time consuming work that requires both a focus and commitment on our part.

With is in mind, how did we do in 2010 in managing your portfolio and what do these numbers mean? Every account that we manage will have a one page comparison of the performance of their portfolio, compared to the performance of the S&P 500 stock market average and the Value Line Geometric Average of Stock Prices. Please keep in mind that this comparison is sometimes not a good measure, especially for those in income (bond) portfolios.

Each of our portfolios is part of a class of portfolios that are similarly positioned. We have grouped portfolios as follows:

ETF Portfolios	Small portfolios (usually less than \$100,000) and more cost effectively managed by using ETFs, ETNs and no-load mutual funds
Non Profits	Portfolio managed for charities where no tax considerations are of concern.
Trusts	Portfolios for which the manager is a legal trustee for the client or a third party.
Aggressive Growth	Portfolios seeking maximum growth, often with more concentrated positions and more trading than other portfolios
Growth	Portfolios seeking diversified growth, not generally concerned with generating dividend or interest income
Growth & income	Portfolios with stocks and bonds seeking to increase values by both capital gains and interest and dividend cash flows
Aggressive Income	Portfolios designed to maximize cash flow to the client often in excess percentages available in the bond market
Income	Portfolio designed to produce a sustainable level of income to the client of the long term with minimal price volatility
Preservation of Capital	Portfolios designed to maintain their value by using very short term and guaranteed investments, such as certificates of deposit and government bonds



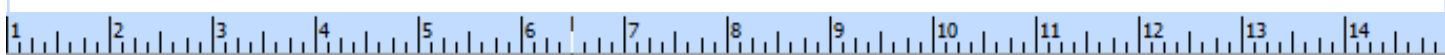
Our 2010 performance by portfolio grouping (Left Table):

Portfolio Type:	2010 Returns
All Accounts	9.55%
ETF	4.05%
Non Profits	10.24%
Trusts	13.30%
Aggressive Growth	12.89%
Growth	11.33%
Growth and Income	7.53%
Aggressive Income	11.50%
Income	7.89%
Preservation of Capital	0.55%
Standard & Poor's 500	12.78%
Value Line Geometric	20.47%

All returns shown are net of all portfolio management fees and transaction charges, but not before tax considerations applicable to each individual client.

What we noticed is that we were generally performing better than the averages through the third quarter of 2010, and we underperformed in the fourth quarter as all the returns of the year occurred in November and December of 2010, seemingly as a result of QE II (quantitative easing, part 2). We remained cautious portfolio managers throughout the year, declining much less than the markets in down months, yet appreciating less than the market in rising months. We believe that the performance of the stock market is hyped by quantitative easing, driving stock and commodity prices higher. When QE II ends in July of 2011, if it is not replaced with QE III, we anticipate difficulties in the markets. Quantitative easing is not solving our economic problems. Rather, it is papering over them with cheap and easy money.

It remains to be seen if our political economic system can be self sustaining without the currency debasement associated with quantitative easing. So without dragging you through a lot of statistics, we performed just OK this year in terms of growth, if you consider that we got this performance by taking significantly less risk and by having less volatility than the markets in general. What I strive to do is get better growth than the markets with less volatility than the overall market.



Within all of our portfolios, we have large holdings in the following securities as of the end of the year:

Investment Position	% of Total Holdings	capital return 2010*	Percent 2010 Div or Int.**
Money Market Cash	16.0%	nil	nil
Templeton Global Bond Fund	13.0%	11.9%	6.0%
SPDR Gold Trust	8.9%	29.3%	nil
Franklin Templeton High-Yield Municipal Bond Fund	5.9%	2.6%	5.4%
First Trust Natural Gas Drillers	3.5%	11.9%	nil
Exxon Mobile	2.6%	14.6%	2.6%
Ford Motor	2.4%	67.9%	nil
Penns Woods Bancorp	2.1%	22.7%	5.7%
Apollo Investment	1.7%	16.0%	11.7%
Franklin Pa Tax Free	1.5%	-3.2%	4.0%
Colgate Palmolive	1.5%	-2.2%	2.5%
Annaly Capital Management	1.5%	3.3%	15.3%
Citizens and Northern Corp	1.4%	55.8%	5.0%
Aberdeen Asia Pacific	1.0%	9.6%	7.1%
DNP Select Income Fund	0.9%	2.1%	8.7%
Total Top Fifteen Holdings:	63.9%		

*Does not include dividend and interest paid in 2010.

** 12-31-09 price divided into 2010 dividends or interest.



Nestlerode & Loy
investment advisors
inc

Major Investment Change

In early January we moved to eliminate most of our holdings of municipal bond mutual funds and exchange traded funds. The municipal bond market has been declining in price as the states and local governmental bodies start to deal with their budget shortfalls in a period of declining federal support. While some states have sharply increased tax rates, other states have slashed tax rates and spending, hoping to spur economic growth. We have been municipal investors for many decades and have never seen a period of such economic uncertainty such as we are seeing now. Four decades of expanding government budgets have now come to a close and the change is causing great concern and pain at the local level.

At some point, we will likely reestablish a number of investment positions in the municipal bond markets. For now, however, we want to step aside and let the government officials make the difficult decisions as they try and right their ships, financially speaking.

Because most of our positions in municipal bonds were in mutual funds and exchange traded funds, we were able to sell our municipal positions quickly. Other folks who had large positions in individual bonds and laddered bond portfolios have found that selling their bonds was difficult at best, with outsized price declines as dealers pulled bids and in some cases illiquid positions as dealers refused to bid on some bonds. We believe the safest way to participate in the municipal bond market is to buy municipal bond mutual funds ETFs that are priced and traded daily.

Client News

We are happy to announce a new section of our quarterly newsletter that focuses on the most important part of our business, YOU! With our clients' prior approval (privacy is important), we will be featuring our clients' businesses and personal triumphs. If you would like your business featured here or a personal triumph trumpeted, please email me at jloy@nestlerode.com. We will certainly try to fit you all in over time. As this idea came to fruition, we realized how many of our clients are business owners who have many successes to celebrate!

For our first feature, we want to introduce you to Edie Binkley. We chose to have Edie featured in our newsletter because she has a brand new business opening in State College which will be called "Clothes Mentor." This national franchise is similar to a Plato's closet, but will cater to women sizes 0-26 plus maternity. Edie honed her skills in business with Lia Sophia and still is a senior manager with the company. She wanted to expand and use her acquired knowledge. When she came across the Clothes Mentor idea, she recognized the demand for just such a high end, gently used, re-sale store in Centre County. The store will carry such brands as Ann Taylor, J Jill, Ralph Lauren, Talbots and many more. The merchandise will include designer purses, shoes, maternity wear and scrubs.

Our suggestion is to clean out your closet to start the New Year and take it into Edie at Clothes Mentor in exchange for cash on the spot Edie is currently renovating her store on South Atherton at 176 Rolling Ridge Drive beside State College Framing Company and Kid to Kid. Our suggestion is to clean out your closet to start the New Year and take it into Edie at Clothes Mentor in exchange for cash on the spot! You may also choose to donate your clothing and request Clothes Mentor donate the cash directly to your favorite charity. She is opening to pay you cash for your fashions shortly and plans on opening to sell in March 2011.

We wish Edie the best of luck in her new venture!! Check out her new store soon. For more information, contact Edie at glitzygirl10@gmail.com.



Company News

We started off 2011 with a wedding. Jody Berthold, our chief compliance officer (CCO) and Danan Sharer, our newest representative, tied the knot on January 8th. We certainly wish them well and like all newlywed couples, they are combining and re-evaluating their investments to maximize their future.

We would like to thank everyone who made charitable contributions in 2010 and who used our services or contributed to those charities that were listed in our last newsletter. We have heard from our clients and will be adding more charities in future newsletters. If you have a favorite charity you want to have included, please contact Judy or me.

The company continues to thrive even though the economy is questionable. Judy and I are constantly reading and writing about the markets and the economy through articles in State College.com (the local web site), articles in Pennsylvania Business Central (generally focused on the Marcellus Shale issues) and the Centre County Women's Journal. Check out Judy's picture on the cover of the upcoming March/April issue of the Women's Journal.



Anniversary News!

We are extremely proud to announce that 2012 marks our 75th year in business. We thought just such a milestone deserved a party. Happily, the CBICC agreed! Nestlerode & Loy, Inc. will be feted as their featured member at a Business After Hours to be held at the Centre Hills Country Club on April 12th, 2012. As we get closer to this exciting event we will share more details to you, our clients, without whom we couldn't have made it this far.