



Nestlerode & Loy^{inc}

investment advisors

Research-based Solutions • Personal Attention

**A report designed for those whose portfolio(s) are
managed by Nestlerode & Loy, Inc.**

October, 2011 Newsletter

General Commentary

I often wonder what I might put in this report that will be useful to you, our clients, who have money invested in our care. I constantly read the notions and reports of others about what is going on in the world and here in the United States and what the events of the day mean for the returns (or lack thereof) that are available in the investment markets. Certainly these are challenging times and many of the traditional guide posts are no longer useful in navigating the crosscurrents of the investment markets. So above all else, what we do is pay attention to darn near everything related to investments on a continuous basis. More than that, we have a context in which to interpret the events of the day that gives us an advantage, I believe, in understanding what these events mean for your portfolio. Further, paying attention allows us to continuously correct our course, thereby minimizing investment errors before they become disasters. So our first value to you, our clients, is our ability to eschew any investment dogma and pay attention to the investment markets and political developments in order to steer a safe course through these trying times. As Reinhart and Rogoff have noted in their economic historical study, "This Time is Different: Eight Centuries of Financial Folly", economic problems are being dealt with ineffectively by government policy and are, in fact, prolonging and even exacerbating a bad situation. To me this time feels very much like the problems that culminated in the Carter Administration that were fixed in the Reagan/Volker era in the early 1980s. It is not yet clear to me that we will avoid even more serious problems economically. The election next year might very well be an important economic inflection point. I believe the current course of government is wrong (unemployment is stuck at over 9% for example) and in my opinion will lead to even more protracted pain and dislocation for many Americans.

In any event, the best way to traverse this investment mine field is to carefully pay attention to developments daily and make the appropriate adjustments to your portfolios to avoid serious investment problems.

Second, after paying attention, we maintain investment optionality at all times. What does this mean? We only invest in those securities that offer market liquidity and pricing. Continuous pricing data on an investment is important as it provides a flow of market information concerning particular investments and the markets in general. Lacking this information, the investor is flying blind without instruments hoping that everything is going alright. Liquidity allows us to buy or sell securities without seriously changing the price of the security. Together, pricing and liquidity amount to investment optionality. That is to say, we avoid being locked into any investment, regardless of the purported guarantees. In times like these, guarantees can fail. To avoid those issues, we only invest in securities that are priced daily and are liquid in the quantities in which we invest in them. Mohammed El Arian, CEO and co-CIO of Pimco with Bill Gross, believes that optionality is a crucial principle for good portfolio management.

Thirdly, our investment operation, unlike most in the world, is transparent to you the investor. What does this mean? It means that you know all the numbers related to your investment account with us to the extent that this is possible. There are still some areas where even we are not totally transparent, such as the use of mutual funds and Exchange Traded Funds (ETFs) as part of your portfolio. We cannot know all the costs of these investments because the investment authorities do not require them to be reported to you the shareholder. Nevertheless, some of these investments offer particular advantages that we use to help generate returns for your account, despite some marginal opacity. On a larger scale, however, you know all the costs (discount transaction fees and management fees) that we charge your account so that you know the gross returns, our costs to your account and your net return.

So let's summarize where we are so far. We provide you with:

1. Continuous Attention to your holdings and the markets and political developments that impact your holdings
 2. We maintain optionality in your portfolio by only owning securities that are priced every day the market is open and are able to be sold on any given business day (aka liquidity).
 3. We are nearly totally transparent so that you can know every important measure of your portfolio, net of all costs.
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Starting with great investment principles helps us avoid many of the problems that other advisors have fallen prey to. Investing with Bernie Madoff, in Enron stock and in the banking industry come to mind as just a few examples of investments our principles helped us to avoid.

We take investing for you seriously. Because our income comes from managing your money, we are subject to a code of ethics that puts your interests ahead of the interests of all those who work for our company. To this end, we measure the performance of your account periodically and compare this to the performances of the major market averages and to the performance of all of our employees' personal accounts. Because all of our investment research is designed to first benefit our clients, our compliance people make sure your performance and investment selections are primary. For more information please see the Code of Ethics addendum to our ADV Part II. In this day of computerization of the investment business, all purveyors of investment products have the ability to tell you how your account is performing. Yet few purveyors offer this information to their clients in a form that is useful to decision making.

That said, how did we do in the third quarter of 2011 and how are we doing year to date? The investment markets turned in good returns through the first two quarters of 2011 and then turned decidedly down in September of 2011. For a graphic representation of the markets, please see the accompanying graphs of the market averages.

Investment Objective/

Market Average	Performance Year to Date	Q 3
Standard & Poor's 500	-10.04%	-14.33%
Value Line Geometric Avg.	-20.05%	-22.43%
All Nestlerode Accounts	- 4.40%	- 6.65%
Aggressive Growth	- 10.75%	- 10.84%
Aggressive Income	- 3.85%	- 3.51%
ETF Accounts	- 5.62%	- 7.82%
Growth	- 5.65 %	- 8.32%
Growth & Income	- 3.85%	- 6.29%
Income	+ 0.51%	- 1.80%
Non Profits	- 4.48%	- 7.74%
Preservation of Capital	- 0.97%	- 1.92%
Trusts	- 0.81%	- 4.74%

While nearly all of our accounts declined in market value in the third quarter, our performance was substantially better than the market averages as indicated above. Our performance was tempered with large positions in cash and in the gold ETF (symbol: GLD). Even gold, however, declined in September after reaching an all-time high in early September.

Since the end of September the market has stabilized and is now in a trading range, bouncing up and down with the news out of Europe. It would seem that the stock market is tied at the hip to the on again off again bailouts of European banks and Southern European countries, notably Greece, Italy, Spain, Portugal and Ireland. Of course the problems with their financial systems might not be happening if their governments and financial institutions had practiced complete transparency for their investors and citizens. Deception is always damaging but is clearly financially catastrophic when practiced on a national scale.

On a happier note, the dire predictions of Meredith Whitney seem to have faded as the municipal markets have performed well since February. Municipal bonds, municipal bond mutual funds and certificates of deposit all performed positively in quarter three. Gold did well for the quarter, despite a poor showing in September, rising 8.11% as measured by the gold ETF, GLD. Curiously, the ETF GDXJ (Market Vectors Junior Gold Miners) declined 27.66% in the quarter, although we have only a small position in this holding. Normally the gold miners and gold bullion prices move together (measured by GLD). Our Marcellus-related holdings were down, although not as badly as their peers: Penns Woods Bancorp down 3.5%, Citizens and Northern down 0.49% and First Trust Natural Gas Drillers ETF (symbol: FCG) was down 25.69%, although it has recovered nicely since month end. I am of the opinion that energy development in the United States and Canada will continue apace as we develop both the Marcellus Shale in the Pennsylvania and surrounding states as well as the Bakken Oil Shale in the Dakotas and surrounding areas. It seems likely in the next several years that the United States will become energy independent, and become an energy exporter to the rest of the world. For those concerned about unemployment, anyone who wants to work in northern Pennsylvania has a job as gas development forges ahead. We are certainly blessed to be avoiding the worst of the national recession here in Central Pennsylvania.

I heard reported the other day that charitable contributions are down nationwide by twenty to thirty billion dollars in the past three years. Americans are the most charitable people on earth, financing all kinds of good causes from medical research to medical care, education, food pantries, the arts and other humanitarian and spiritual endeavors. As we approach year end, please consider making your contributions early and putting a little extra effort in your giving. With national unemployment high, more people are using the help that their community charities offer. If you want to contribute from your portfolio, please contact our offices to make arrangements. Many local charities have accounts with our firm, making such contributions quick and easy. Others require a bit of research and time to accomplish, so give us all the lead time you can to ensure your gift is delivered in a timely fashion.

In the News

Under the direction of CEO Judy Loy, the company had a great year in 2011. Our net capital is at record levels and remains in the banks as it is dedicated to keep the company operating no matter what happens in the investment markets. Many other firms had their capital invested in the markets in the past financial meltdown and some are no longer with us, such as Lehman Brothers, Bear Stearns and Merrill Lynch. We follow our own investment principles when managing our company. Our fiscal year ended September 30th and we are in the midst of our Sarbanes-Oxley (SarboX) audit. While SarboX was supposed to cover only public companies and brokers who had possession of client securities (we do not – our clearing firm, RBC.CS holds your securities and funds), firms like Nestlerode & Loy, Inc. were erroneously included in the laws designed to prevent future Enrons. No technical corrections bill has been passed by congress, so we follow the flawed law even though the Securities and Exchange Commission gave us a waiver for a number of years. SarboX audits make neither you nor the shareholders of Nestlerode & Loy, Inc. safer, they just make our auditing more expensive. Still, the auditing firm people are pleasant and do a great job and we have a good working arrangement with them.

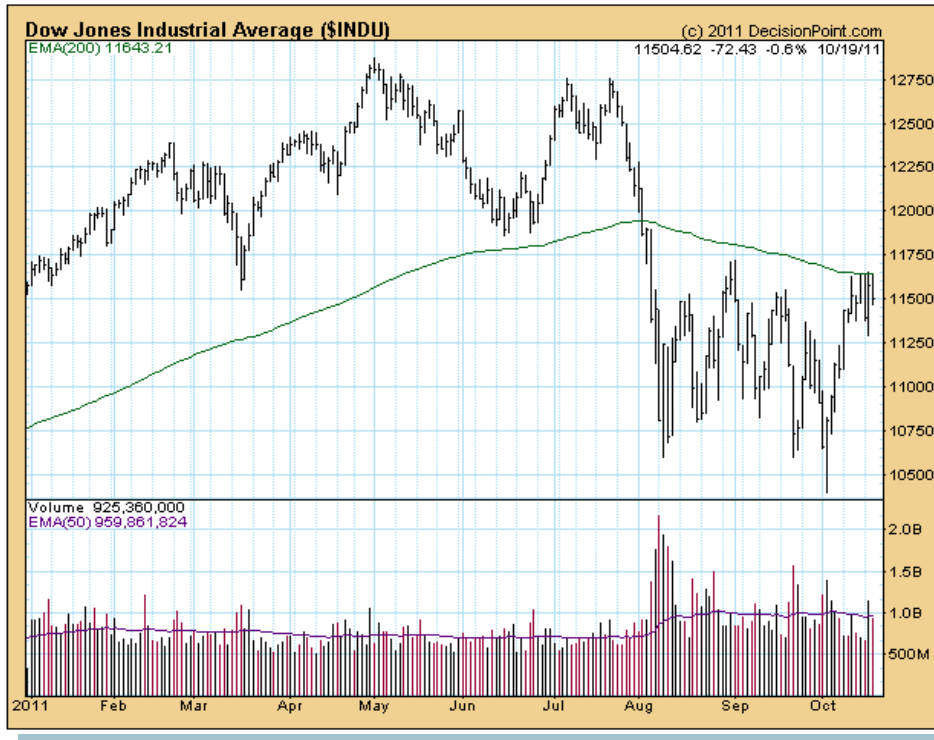
Finally, we are planning for our company's 75th anniversary next year. My father entered the investment business in August of 1929, right before the market crash and Great Depression. In 1937, he founded Nestlerode & Company in Williamsport in order to find a way to be fairer for his clients, many of whom were family friends. The company was incorporated in 1965, the year I joined the firm. I later became the President in 1983 and twenty five years later I retired from corporate management and turned the reigns over to Judy Loy, our third generation leader. There will be announcements coming in the future about our celebration.

Dan Nestlerode,

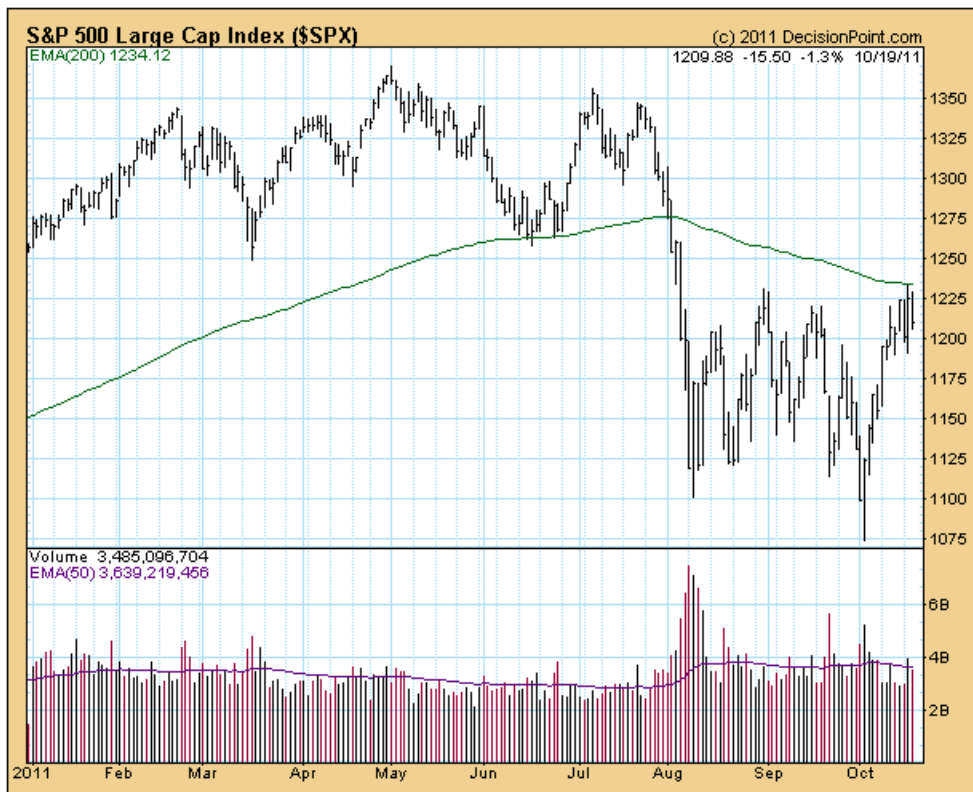
At Pine Village

October 19th, 2011

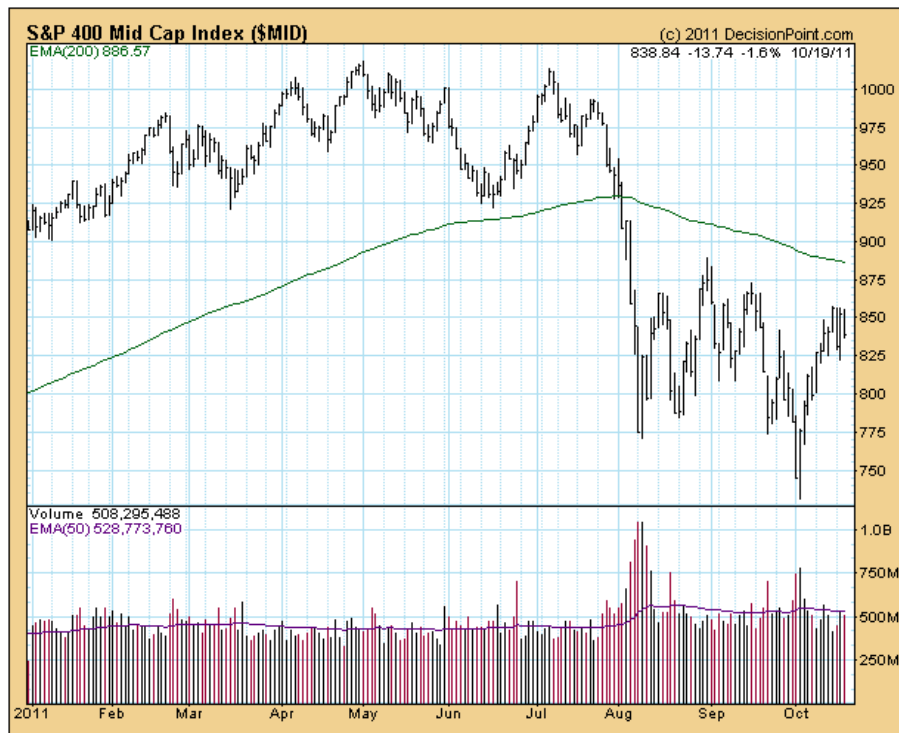




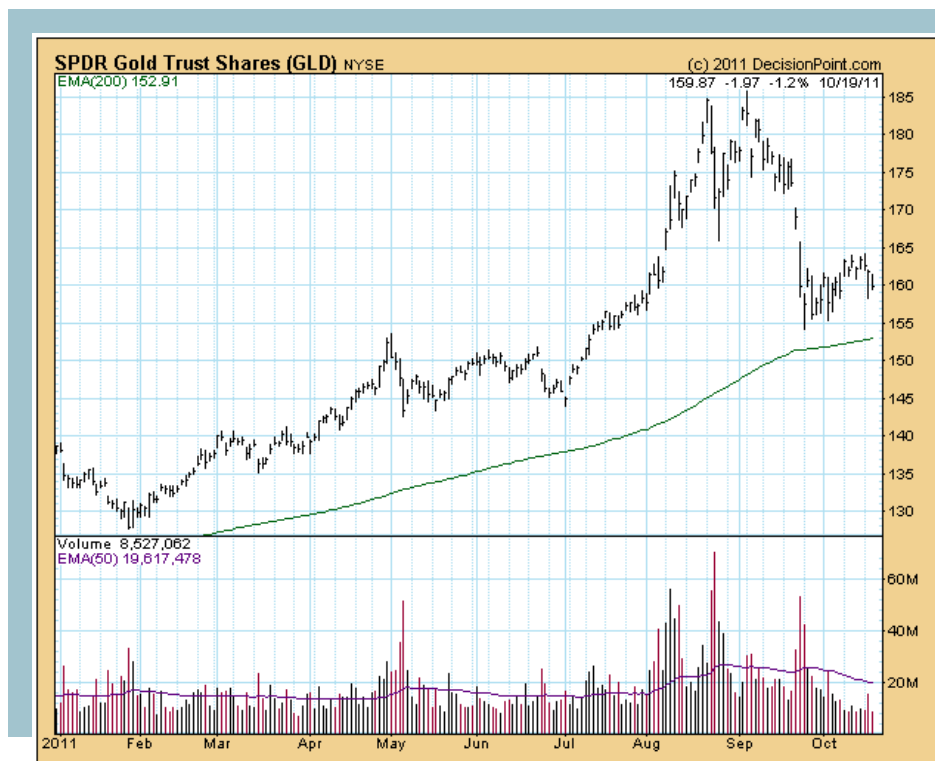
The markets did fine until August, when everything fell rather sharply and quickly. Since then the markets have moved within a trading range or 'sideways'.



The S& P 500 has done marginally better than the Dow Jones Industrials, but the pattern is still the same.



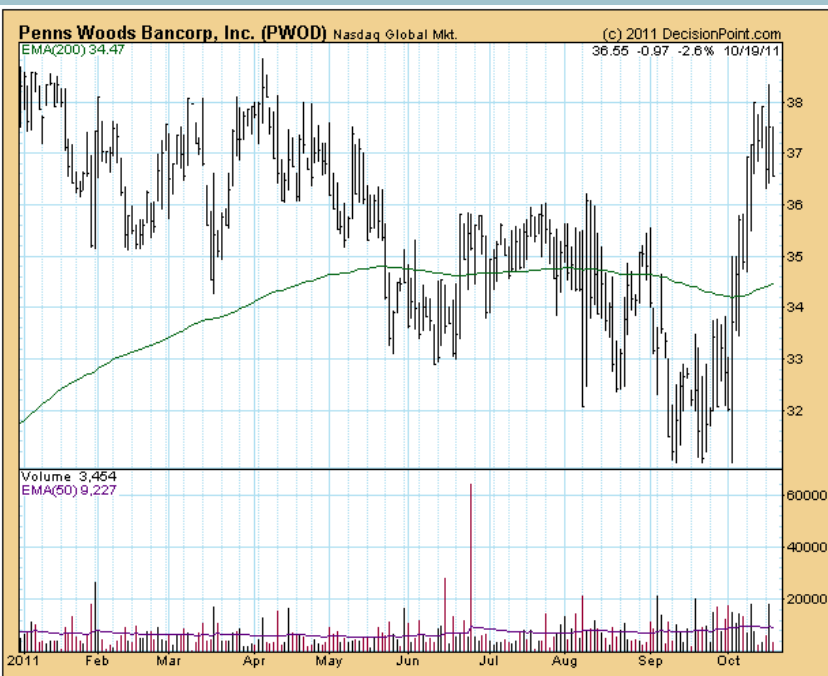
Investing in mid-capitalization stocks was no help in the recent decline. This kind of diversification did not help offset the decline in the large capitalization stocks.



Gold peaked in early September and then fell from 185 to about 155 as measured by the gold ETF, GLD. Still the precious metal, an alternative to holding paper currencies, continues to perform well on a year to date basis.



Silver has not performed as well as Gold so far this year. It has been much more volatile as can be seen in the graph above. Silver has fallen twice this year in short rapid declines, in May and then again in September.



Are all bank stocks bad? I do not believe so. Penns Woods Bancorp Inc. was not bailed out by the Federal government and has sported a large dividend all through the financial crisis. Located in Marcellus Shale country, PWOD should benefit from the economic development that the natural gas play will bring to central Pennsylvania. PWOD is paying just over 5% at the current stock price.