



# ATR Advisors

## ABSOLUTE TOTAL RETURN THIRD QUARTER 2012 COMMENTARY

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The last quarter was a very rewarding one for us and for our investors. Many of our investments out-performed our benchmark in the strong market rally in the third quarter.

We were honored that Morningstar continued to give our ATR strategy their much sought-after “Five-star” rating in our category through the second quarter. We were also honored that Informa Investment Solutions again gave our ATR strategy their PSN “Top-Gun manager” rating in our category for the third time in the past four quarters. This means that our ATR strategy was among the top ten performers within our peer group reporting to PSN in the second quarter. PSN is the longest running investment manager database in North America.

In addition, several of the investment opportunities that we advised about in previous quarterly commentaries, were able to bear fruit in the third quarter, allowing us to earn substantial rewards for our clients:

### **Mortgage Real Estate Investment Trusts (REIT's):**

In our commentary for the fourth quarter of 2011, we wrote:

“We know that ‘Operation Twist’ is scheduled to end in June 2012. So we need to keep this in mind as we plan our portfolio management strategy. If and when there is another round of quantitative easing in 2012, the Fed may likely focus on the residential mortgage sector.”

Based on this, we decided to invest in residential Mortgage-REIT's at a very favorable time for our clients. The sector, represented by the FTSE NAREIT Mortgage TR Index (FNMRTTR), was up over 28% YTD in the first three quarters of 2012, enabling us to earn significant gains.

## **Energy Master Limited Partnerships (MLP's):**

In our commentary for the second quarter 2012, we wrote:

“We were able to attend the annual meeting of the National Association of Publicly Traded Partnerships (NAPTP) at the end of May, in order to directly investigate opportunities in the MLP sector. Over 50 MLP's were represented, and we were able to arrange one-to-one meetings with CEO's and CFO's of many of our main energy holdings. This allowed us to zero in on those MLP's which had been most oversold by the market correction.”

Again, sticking to our strategy was rewarded. The MLP sector, represented by the Alerian MLP TR Index (AMZX), was up 8.89% in the third quarter, beating the S&P 500 (SPX) Index by a full two and one-half percentage points in the past quarter alone.

## **The Total-Return of a Position**

As we've outlined previously, our strategy is to seek investments with the highest projected total-return, adjusted for risk. At this point, we'd like to break down what components the total-return of an individual holding consists of:

Total-return is defined as the actual rate of return of an investment or a pool of investments over a given evaluation period. Total return includes interest, capital gains, dividends and distributions realized over a given period of time.

For our purposes, we find it useful to break down the one-year total-return of an investment into the following two components:

Dividends and distributions. These are the actual cash payments to shareholders received by our clients.

Capital gains. This reflects the increase in the price of the stock, due to an increase in the stream of income that the stock generates, and/or an improvement in the stock's valuation.

## **Using Covered-Calls to Protect Individual Components of Total-Return**

One strategy that we've used to protect these individual components, for clients who want it, is called the “covered-call” strategy. This is considered a low risk strategy designed to increase portfolio income by giving others the right to acquire one of our portfolio positions for a limited period of time at a price above which it is currently trading. To implement this strategy, our clients must authorize us to do so by executing an addendum to their account agreement. We will be reaching out to each of you to

explain the strategy in detail and answer any questions you may have. We will then ask you to authorize us to add this capability to our strategy for you.

**Conclusion:**

We are gratified that our ATR strategy continues to do what it's supposed to do – identify and monitor companies that generate steady income-streams for our clients, and that are often able to grow those income-streams over the near future.