

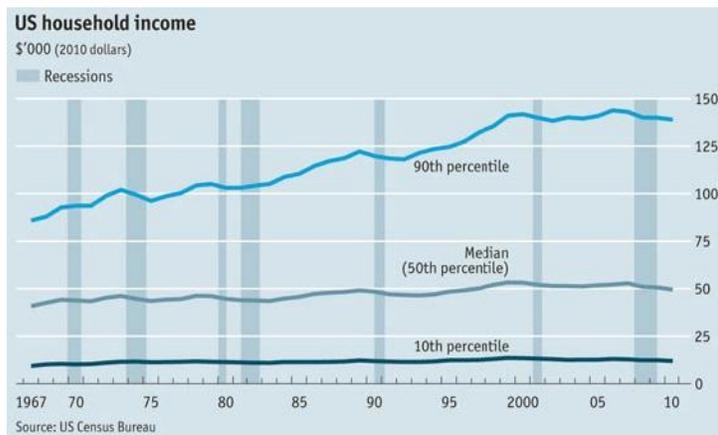
## Third Quarter 2011

For most of the past year the stock market waged a battle over impressive corporate profits versus grim macro-economic conditions. The bulls were winning until late in the summer when the fragility of high-income economies became apparent. The catalyst was the realization that the recovery in global manufacturing, including emerging markets, was grinding to a halt.

The root of the problem is too much debt which cannot be solved quickly and needs effective leadership, a quality in short supply in rich-world countries. Until recently investors looked to the Fed to fix things. However, like the man behind the curtain in the *Wizard of Oz* it is now clear that the claims about the Fed's power were greatly exaggerated. Unfortunately the fate of the economy and stock market will be determined by the ability of policymakers to solve the difficult problems. We probably shouldn't be too hard on our elected officials because even the "experts" can't agree on the right prescription to heal our economic woes.

**However, the good news is that our problems are solvable.** The Eurozone as a whole is solvent so long as the core countries stand behind the peripheral weaker countries. In the U.S. even modest changes to social security, Medicare, our tax system, and discretionary spending can go a long way to controlling our debt and deficits.

In addition to the negative effects of deleveraging our economy is struggling due to a lack of real income growth. According to the Census Bureau, many U.S. households have sustained stagnate incomes for a generation. As reported in *The Economist*, "(i)n 2010, the typical American household earned an inflation-adjusted income of \$49,445, scarcely different from that in 1989 and a fall of 2.3% since 2009. Current incomes are at roughly the level of the late 1970s for those near the bottom of the income spectrum." (See chart below)



On a positive note while consumers in the developed markets will be constrained emerging market consumers are getting richer. Only U.S. consumers outspent those in China, and by

2013 the Economist Intelligence Unit expects China to overtake the U.S. as the world's largest retail market.

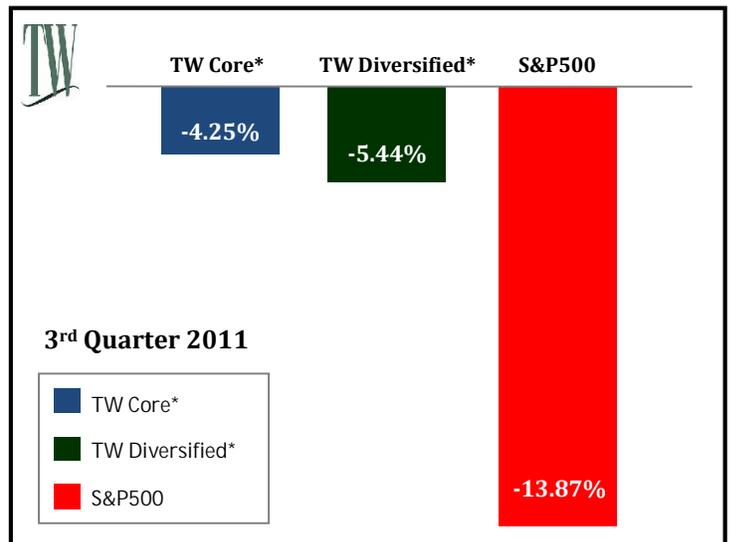
The biggest near-term risk is that the debt crisis in Europe spins out of control and causes another financial crisis. Since this risk is so serious **we are maintaining a very conservative posture.** Furthermore we expect earnings expectations to come down and for investors to apply a low earnings multiple to stock valuations. But keep in mind that a lot of damage has already taken place (European, Emerging Market and U.S. small-cap stocks all fell about 22% last quarter), and if prices of financial assets become too cheap, the "animal spirits" of both investors and companies will reawaken.

Despite our macro concerns **there are opportunities in the stock market, especially in the mega-cap arena where valuations are attractive and yields are high.** Best of all, we are not taking balance sheet risk as our companies have very little or no debt. Investors are in a unique period of time where they can own very high-quality stocks and generate a sustainable and growing income stream well above money markets and medium term U.S. Treasury securities. High-quality stocks have started to outperform after being ignored over the past decade. We believe this asset class is underrepresented in institutional portfolios and will benefit as this group rediscovers the value in this area.

In the past quarter, while the S&P500 suffered one of its worst reporting periods, **our conservative stance not only allowed us to outperform (chart below) but placed us in a position to make selective purchases as the market bottoms.**

Be sure to contact us if you have any questions.

**James Tillar, CFA   Steve Wenstrup**



**TW Core Strategy**

9/30/2011	Quarter	Year to Date	One Year	3 Years	5 Years	Inception
<b>TWCore After-Tax</b>	<b>-4.25%</b>	<b>-1.34%</b>	<b>4.43%</b>	<b>3.43%</b>	<b>0.91%</b>	<b>4.41%</b>
<b>S&amp;P 500</b>	<b>-13.87%</b>	<b>-8.69%</b>	<b>1.14%</b>	<b>1.23%</b>	<b>-1.18%</b>	<b>2.92%</b>

Returns Annualized over 1 year

1. Past performance does not guarantee future results
2. Tillar-Wenstrup Advisors, LLC is an independent investment management firm, and is not affiliated with any parent organization.
3. Tillar-Wenstrup Advisors, LLC maintains a sub-advisory relationship with C.H. Dean & Associates, Inc., to continue management of all accounts in Dean's "Blue Chip" division. These accounts maintain an investment advisory agreement with C.H. Dean, who is responsible for performance records, verification, and audit procedures required to maintain compliance with GIPS standards. The performance record of these "Blue Chip" accounts from Jan.2002 and going forward, is being maintained separately by C.H. Dean & Associates. The performance record for Tillar-Wenstrup, from the 1st quarter of 2002 and going forward, reflects only those accounts with an advisory agreement at Tillar-Wenstrup.
4. The TW Core Equity composite is benchmarked against the performance of the S&P 500 Index and the Lipper large Core index as the portfolios hold a majority of positions in large capitalization companies.. The S&P 500 and Lipper Large Core Indexes are recognized diversified indexes of large and midcap stocks. Benchmark returns have no costs or fees.
- 5 All performance returns are expressed in U.S. dollar currency. No leverage or derivatives were used in producing these performance results.
6. Returns presented above are gross of management fees but may be net of trading costs in portfolios where commissions are charged. Pre-tax annual returns for the All Equity Style, TW Core Equity: GROSS: 1998,+30.20%; 1999,+24.69%; 2000,-6.87%; 2001,-13.35%, 2002, -15.04% 2003 25.87% 2004 8.90%, 2005 2.04% 2006 4.83% 2007 9.19% 2008 -31.59% 2009 28.54% NET:1998, +29.01%, 1999, +23.72, 2000, -7.41%, 2001, -13.84%, 2002, -15.47%, 2003 25.10% 2004 8.19% 2005 1.00% , 2006 4.64% 2007 7.50% 2008 -32.52% 2009 27.94%. 2010 7.24%
7. Performance represents the results of taxable commission portfolios, with dividends and interest income reinvested. Results are presented gross of custodial fees and foreign withholding tax and net of trade commissions. Returns are non-GIPS standards to include similar expense analysis in commission and wrap accounts. "Net" returns include all actual investment management fees charged. The highest actual management fee charged on any account was 1.5%. Management fee schedules are filed with the SEC on Form ADV Part II.
8. A complete list of composites and performance results at Tillar-Wenstrup Advisors LLC, is available upon request. Assets under management: approximately \$100mm

09/30/2011	Quarter	Year to Date	One Year	3 Years	5 Years	Inception
<b>TW Diversified Core</b>	<b>-5.44%</b>	<b>-1.35%</b>	<b>5.48%</b>	<b>2.75%</b>	<b>0.60%</b>	<b>3.19%</b>
<b>70% LGCore-30% MSCI AW</b>	<b>-15.97%</b>	<b>-11.90%</b>	<b>-3.13%</b>	<b>-0.80%</b>	<b>-2.92%</b>	<b>0.65%</b>
<b>S&amp;P500 Index</b>	<b>-13.87%</b>	<b>-8.69%</b>	<b>1.14%</b>	<b>1.23%</b>	<b>-1.18%</b>	<b>1.84%</b>

**(Returns Annualized over 1 year)**

1. Past performance does not guarantee future results \* The S&P 500, MSCI All World Index and the Lipper Large Core Index are broad indexes of stocks recognized as a market measure. MSCI Index is added to include international exposure in the Diversified Core Strategy
2. Tillar-Wenstrup Advisors, LLC is an independent investment management firm, and is not affiliated with any parent organization. "TW Diversified" has been offered as a separate product since Jan. 2002.
3. The TW Diversified Core composite is benchmarked against the performance of the S&P 500 Index and the Lipper Large Cap Core index as the portfolios hold a majority of positions in large capitalization companies.. The S&P 500 and Lipper Large Core Indexes are recognized diversified indexes of large and MidCap stocks. Benchmark returns reflect no costs or fees.
4. All performance returns are expressed in U.S. Dollar currency. No leverage or derivatives were used in producing these performance results.
5. Performance represents the results of the TW Diversified Core taxable composite, with dividends and interest income reinvested. TW Diversified Core results include the taxable commission and wrap fee composites Gross results are presented net of custodial fees and foreign withholding tax, but not trading costs. "Net" returns are net of all actual investment management fees charged by the manager. The highest actual management fee charged on any account was 1%. Management fee schedules are filed with the SEC on Form ADV Part II.
6. A complete list of composites and performance results at TW Advisors is available upon request. Most current quarter's data is preliminary. Assets under management: approximately \$100mm