W O O D S T O C K

QUARTERLY NEWSLETTER

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Winter, 2013

In comparison to others, Woodstock clients did well in 2012. A double digit, positive return is good. As you have, we've heard the phrase repeatedly: "the stock market climbed a wall of worry." We hope that the world events and government decisions that affect financial markets will be positive over the coming year, but we are not counting on that. We are continuing to invest in the talent and systems to get the best investment results we can. As Adrian Davies discusses on the next page, our Strategies portfolios are working to show our investment managers' skills and to provide an investment area for those clients who want that type of investment. We're continuing to invest in the back office and investment management systems that will become more evident to clients over the coming year. Our efforts are primarily meant to enhance what we view as our core product: high quality, individual stocks in separately managed client portfolios with a dedicated portfolio manager. Other sources of revenue allow us to offer that core service at a reasonable price.

In their 2012 survey of compliance testing, a group, including the Investment Advisor Association and included in the August edition of the IAA Newsletter, reported on survey responses "from 555 compliance professionals representing a range of SEC-registered investment advisors," many of whom are larger than Woodstock. Their finding: "Only 43% of respondents claim compliance with GIPS." Woodstock complies with GIPS standards.[1] The team at our sister company, Woodstock Services Company, LLC, deserves much praise for their hard work which allows us to make this claim.

As mentioned in last quarter's letter, the McKinsey & Company review of the current state of the asset management industry and their predictions about where existing trends would take the industry by 2015 mentioned the trend toward passive, rather than active management, investing. However, they predicted that active investment management would remain at 60% of assets under management in 2015. We were reminded of our discussion of benchmarks in last Spring's letter. While there are many conditions and factors that go into the decision to actively or passively manage investments: from whether the manager has fewer assets under management than larger managers (a benefit), whether the manager makes permanent bets against a benchmark (a detriment), or survivorship bias (a confounding factor), two stand out. One is the benchmark that the investor uses, and the other is a thorough understanding of the manager, so the investor retains confidence in the manager during those inevitable periods of underperformance.

The expected benchmark for our investment style is the S&P 500 stock index. We include various forms of it in our GIPS compliant performance reporting. Our clients also use other benchmarks from risk adjusted return, to the absolute value of their account(s) over time, to simply the knowledge that if their account(s) contain a diversified basket of high quality stocks that they will do as well as anyone in the investment world. Meeting or beating your benchmarked expectations is what we always strive to do.

We know that you are the most valuable business development tool that we have. Your referral of a friend, colleague or family member to us is the most important way that we grow.

We thank you for your support and want you to know that we are dedicated to serving your best interest.◆

Paul D. Simpson, President
William H. Darling, Chairman

Would you prefer to receive the Woodstock Quarterly Newsletter via Email? Please contact your Portfolio Administrator, or email hperry@woodstockcorp.com, and we will send them to you electronically going forward. Thank You!

Woodstock Corporation: Growth Composite					
	Annual Returns Periods Ended 31 December				
	2012	2011	2010	2009	2008
Gross of Fees	12.43%	4.66%	9.24%	18.58%	-29.43%
Net of Fees	11.31%	3.62%	8.14%	17.39%	-30.14%
Benchmark	13.66%	3.45%	13.67%	22.46%	-29.83%

Note: Returns are measured in U.S. dollars

Woodstock Corporation claims compliance with the Global Investment Performance Standards (GIPS®). Woodstock Corporation is an investment advisor registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. Registration does not imply a certain level of skill or training. Woodstock Corporation manages a variety of equity, fixed income, and alternative investments for high net-worth individuals, trustees, corporations, and philanthropic institutions.

Performance has been reduced by the amount of the highest fee charged to any client employing the strategy during the performance period. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and also may be found in Part II of its Form ADV.

The composite consists of portfolios seeking long-term growth, while minimizing turnover and taxes. The composite consists of portfolios typically comprised of 70-100% equity instruments. The composite benchmark is a static blend of 80% S&P 500 and 20% Barclays Aggregate Bond Index and is rebalanced monthly.

Portfolios may fall outside target allocation due to volatile markets, but will remain in respective composite if they maintain the long-term goal.

To obtain a compliant presentation and/or a list of composite descriptions, contact Elena Gillespie at egillespie@woodstockcorp.com.

Composite and benchmark returns reflect the reinvestment of dividends and other earnings. Past performance does not guarantee future results.

Research Strength

Adrian G. Davies

We would like to further highlight Woodstock's independent research capabilities. Our analysts have an average of 30 years of investment management experience, and have followed the same industries or sectors for much of this time. We believe such duration of industry coverage enables our analysts to view current trends from a broader perspective, and to better understand how long these trends will endure.

In addition to the stocks which our analysts follow for core Woodstock portfolios, they also follow a handful of smaller capitalization, typically riskier companies which are held in one of our three strategy portfolios: healthcare, energy and technology. We have highlighted these sector strategies before. If you are interested in participating, please contact your portfolio manager.

The strategy portfolios contain stocks which are more speculative in nature than the stocks we recommend for our core portfolios. However, we believe they offer strong return potential. As they mature, and as we gain greater comfort with them, they may become approved Monitor List stocks, meaning that we would consider them appropriate for core portfolios. These are our double A or farm league stocks. Some will work out and some won't. All the while, our analysts are achieving a greater depth of understanding of industry and sector dynamics. In some cases, investment themes referred to by larger companies may be better captured by smaller capitalization, single product companies. In other cases, our knowledge of smaller capitalization companies may provide fresh perspectives on how some of our larger capitalization companies are fairing in specific product markets. If these smaller companies are acquired, as has happened on several occasions, then coverage of the smaller companies translates directly to better understanding of their acquirers.

Here, we highlight the most recent portfolio changes from each of the sector strategy portfolios.

Healthcare and Biosciences Strategy

The most recent addition to the Healthcare and Biosciences Strategy portfolios is OPKO Health, Inc. (OPK). OPKO is an emerging multi-national, diversified diagnostics and pharmaceuticals company. Under CEO Dr. Phillip Frost, former CEO

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of Teva Pharmaceuticals, the company endeavors to establish industry-leading positions in rapidly growing medical markets by leveraging discovery, development, and commercialization expertise as well as proprietary technologies. It is developing a range of solutions to diagnose, treat, and prevent various conditions, including molecular diagnostics tests, point-of-care tests, proprietary pharmaceuticals, and vaccines. The company plans to commercialize these solutions on a global basis in large and high growth markets, including emerging markets (Chile and Mexico). Also, the company operates as a specialty active pharmaceutical ingredients manufacturer in Israel, which is currently generating revenue and positive cash flow.

OPKO's most interesting near term opportunity consists of a proprietary low cost, point-of-service diagnostic system. Initially this is being rolled out for prostate cancer but other indications (including Alzheimer's) are under development. It has multiple other ventures of substantial interest in process. Some financing may be required in the next 12 months; however, depending on a possible $100 million milestone payment, additional financing may not be required.

Metabolix (MBLX) was the most recent sale in the Healthcare and Biosciences Strategy portfolios. The company is a breakthrough innovator in bio-degradable substitutes for plastic. It co-ventured with Archer-Daniels-Midland which provided substantial funding and other resources to the venture. Unfortunately end market demand has been slow to develop and ADM withdrew from the venture greatly reducing the Company's operating capacity and nearer term prospects. The stock was sold at a loss, in part to offset gains realized early in 2012.

Information Technology Strategy

Peregrine Semiconductor (PSMI) was recently purchased for the Information Technology Strategy portfolios. The company designs and markets proprietary radio frequency semiconductors called UltraCMOS. UltraCMOS chips are 80% smaller and considerably less expensive than more traditional radio frequency semiconductors made with Gallium-Arsenide (GaAs). UltraCMOS are manufactured out of materials proprietary to Peregrine Semi. Smartphones are expected to send and receive signals at an increasing number of radio frequencies, making UltraCMOS an affordable way for smartphone companies to meet expanding wireless spectrum requirements while keeping costs down. Apple and Samsung are among the companies that make up Peregrine's 40% market share in smartphones and tablets. Peregrine's market share continues to rise.

The Information Technology Strategy portfolios recently sold Actuate Corporation (BIRT), a provider of custom data analytics software. Data analytics, the use of large-scale number crunching to help corporations better optimize their business systems, is a rapidly growing industry. The company's flagship software tool, ActuateOne, focuses on Business Intelligence and Reporting Tools for browsers and mobile devices. The company's products and services are used to improve a range of business functions, including marketing, advertising, finance, account management, and customer self-service. The company uses a "freemium" business model, whereby its basic data analytics software is available free of charge. The company generates revenue when customers seek to integrate this software into their other business processes.

Energy Strategy

Evolution Petroleum Corp (EPM) is a $250 million market cap independent energy company that is focused on acquiring, exploiting and developing crude oil and natural gas reserves onshore in the U.S. Management has one objective and that is increasing its asset value per share. Evolution Petroleum had acquired its most important asset, a stake in the Delhi oil field of northeast Louisiana, for less than $3 million in 2003. The majority interest in Delhi is held by Denbury Resources (DNR), another energy strategy holding. Delhi is approximately 65% of Evolution's current production and is clearly the "cash cow" that will fund the company's future growth initiatives. The net present value of Delhi, as defined by SEC regulations, is estimated to grow to over $500 million by 2015. The stock market appears to assign no value to the rest of the company. Evolution Petroleum has reserve and production potential (roughly 80% liquids) from the Mississippi Lime play in Oklahoma, which it acquired in 2012. A third leg to the story is the company's patented GARP (gas assisted rod pump) technology which can extend the life of horizontal gas and oil wells by recovering an additional 10-30% of reserves in place for less than $10 per BOE (barrel oil equivalent). Only four wells have GARP installed currently – discussions with other joint-ventures are ongoing and more wells will be added over time.

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The investment judgment at the time of purchase was that the downside to the stock was minimal ($1), while the upside was $4-$8 a share, meeting the Strategy's twin objectives of a favorable reward/risk ratio and a minimum 50% return potential over three years.

Petrohawk Energy Corp. (HK1 – suspended ticker) was an independent energy company that had grown internally and through several acquisitions under the entrepreneurial leadership of its founder and CEO, Floyd Wilson. It eventually became the "pure play" on the Haynesville natural gas shale in East Texas/Northwest Louisiana having begun acquiring choice acreage in 2007. Its discoveries were characterized by unheard of initial production flow rates and the Haynesville popularity mushroomed over the ensuing years. On July 15, 2011, BHP Billiton acquired Petrohawk in an all cash $38.75 offer.◆

The securities mentioned here should not be construed as recommendations. They do not represent all of the securities purchased or sold for advisory clients. It should not be assumed that transactions made in the future will be profitable or will equal the performance of the securities mentioned. Past performance is no guarantee of future results.

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Tax Update

Jeanne M. FitzGerald

On January 1, 2013 Congress passed legislation to avert the so-called "fiscal cliff". The American Taxpayer Relief Act of 2012 permanently extends reduced tax rates for most taxpayers, permanently "patches" the alternative minimum tax and provides for a permanent 40 percent federal estate tax.

The American Taxpayer Relief Act permanently extends the Bush-era income tax cuts except for single taxpayers with taxable income above $400,000, married couples filing joint returns with taxable income above $450,000, and heads of households with taxable income above $425,000. Effective January 1, 2013 income above these levels will be taxed at 39.6 percent.

The American Taxpayers Relief Act also revives the Pease limitation on itemized deductions for higher-income taxpayers after 2012. Individuals with incomes over $250,000 and married couples filing joint returns with income over $300,000 will be affected. The total amount of exemptions that may be claimed by a taxpayer is also reduced for individuals with incomes above $250,000 and joint filers with incomes over $300,000.

The new law does not extend the employee-side payroll tax holiday. Starting in 2011, the employee share of Social Security taxes was reduced from 6.2% to 4.2% up to the Social Security wage base. Effective January 1, 2013, the employee share of Social Security taxes reverts to 6.2%. Take-home pay for all wage earners will be decreased in 2013. Effective January 1, 2013 the maximum tax rate on qualified capital gains and dividends increases from 15 percent to 20 percent. The 20 percent rate applies to the extent that a taxpayer's income exceeds the thresholds set for the 39.6 percent rate. ($400,000 for single taxpayers and $450,000 for married couples filing a joint return). The 15 percent maximum tax rate will continue to apply to all other taxpayers, unless they qualify for the zero percent rate available to qualified taxpayers within the 15 percent or lower tax bracket.

The American Taxpayer Relief Act permanently "patches" the alternative minimum tax by increasing the exemption amounts and indexing them for inflation, retroactive to January 1, 2012. The patch saves over 60 million taxpayers from being subject to AMT on their 2012 tax returns.

Effective January 1, 2013 the maximum federal estate, gift, and generation-skipping transfer tax rate will rise from 35 percent to 40 percent. The exclusion amount for estate, gift and generation-skipping transfer taxes is $5.25 million and will be adjusted for inflation annually. The new law also makes permanent "portability" between spouses.

The new law also made permanent or extended several other tax credits and deductions including:

- Child tax credit (permanent)
- Child and dependent care credit (permanent)
- Adoption credit (permanent)
- American Opportunity Tax credit (through 2017)
- Higher education tuition deduction (through 2013)
- IRA distributions to charitable organizations (through 2013)
- Cancellation of indebtedness on principal residence (through 2013)

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