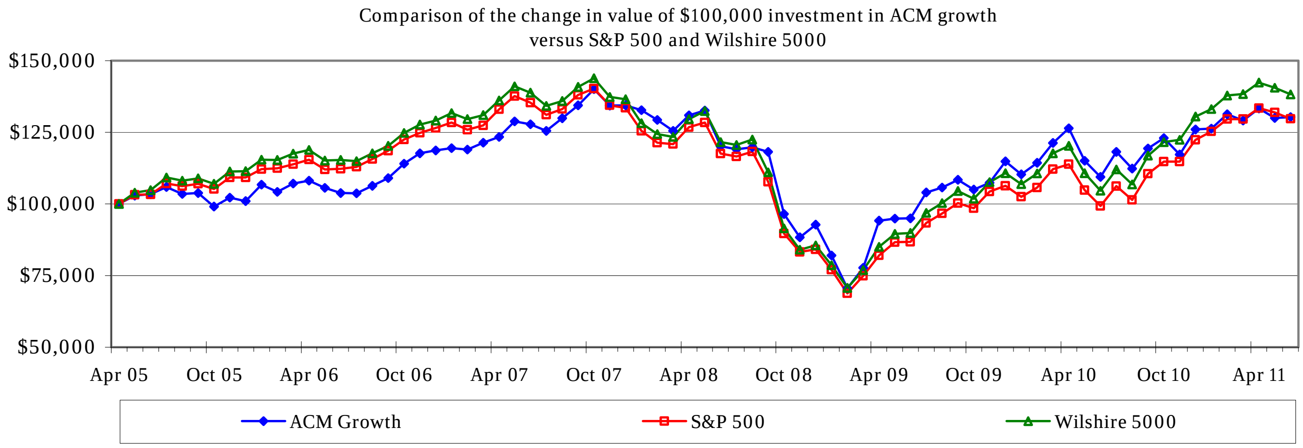
Athena Capital Management

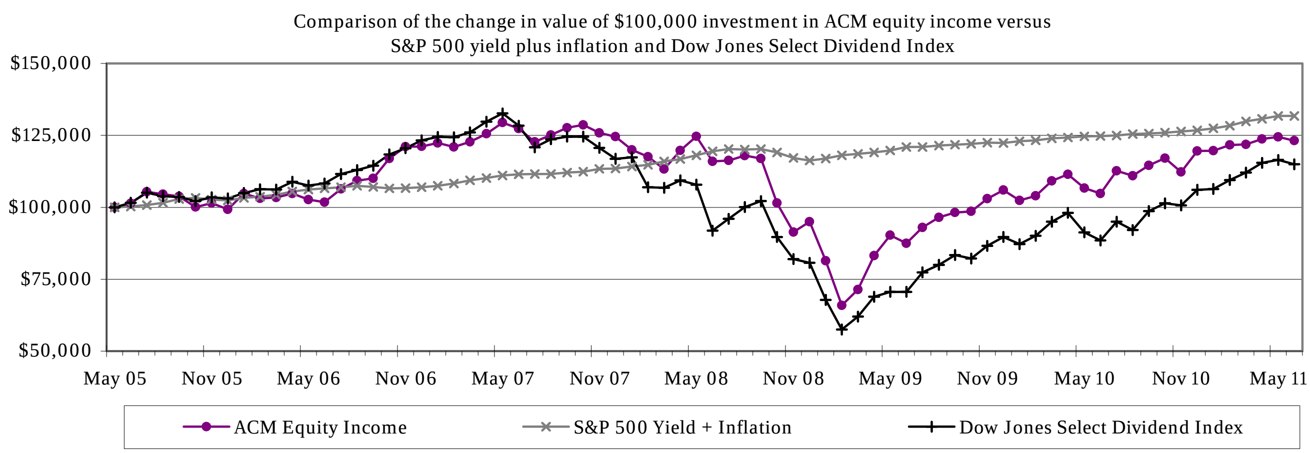
Cumulative Growth Performance

Performance as of 6/30/11	Year to date	1 year	3 years	5 years	Since inception (4/30/05)
ACM Growth	3.40%	19.14%	8.41%	25.55%	30.33%
S&P 500	6.03%	30.69%	10.34%	15.60%	29.76%
Wilshire 5000	5.90%	32.05%	13.67%	19.82%	38.21%



Cumulative Equity Income Performance

Performance as of 6/30/11	Year to date	1 year	3 years	5 years	Since inception (5/31/05)
ACM Equity Income	2.99%	17.51%	6.19%	21.00%	23.12%
S&P 500 yield + inflation	3.98%	5.63%	10.33%	23.70%	31.75%
Dow Jones Select Dividend Index	8.39%	29.92%	25.16%	6.21%	14.94%



Past performance is no guarantee of future results. As in all equity investing, there is a risk for potential loss. Performance results were calculated after deduction of all management and trading fees. Portfolios were valued daily, trade date accounting was used, accrual accounting was used for dividends. Time-weighted rates of return that adjust for significant cash flows were used. Returns from cash were included. For ACM growth accounts, the S&P 500 was used as benchmark because it was deemed the most readily available and widely known growth composite. It should be noted that ACM growth accounts were more concentrated, sometimes had higher cash investments, included international investments, and were invested in companies with different market capitalizations and characteristics than the S&P 500. Although these differences existed, the accounts shown were invested for growth and not set to achieve any particular market capitalization or exposure. ACM equity income accounts used S&P 500 yield plus inflation because this combination of the most readily available equity yield and growth with inflation was deemed the most relevant benchmark for equity income accounts. These accounts are designed to provide an equity yield for income plus growth to maintain purchasing power over the impact of inflation. Both out- and under-performance of accounts shown were due both to individual security selection and to concentration of investments. Neither market nor economic conditions contributed significantly to account performance relative to benchmarks. ACM growth and equity income portfolios include all portfolios under management during all periods of management and include portfolio performance as of the first day of management. The accounts depicted used no leverage or derivatives. The S&P 500 and S&P 500 yield plus inflation returns shown do not reflect commissions, trading expenses, or management fees, which would have reduced both benchmarks' results.

© Copyright 2011 Athena Capital Management Corp. All rights reserved. Permission is hereby granted to electronically link, forward, or store this document in its entirety or to quote passages as long as source is attributed to "Michael Rivers, CFA, Athena Capital Management." Nothing in this letter should be considered investment, financial, tax, or legal advice. The opinions, estimates and projections contained herein are subject to change without notice. Information throughout this letter has been obtained from sources believed to be accurate and reliable, but such accuracy cannot be guaranteed.

Athena Capital Management

July 15, 2011

In the 2nd quarter, the market first climbed, then pulled back due to poor economic news and the Fed ending its quantitative easing program. Whereas the market scarcely broke even, our portfolios managed better gains.

In this quarter's letter you'll find: a review of our performance; my view on markets and the economy; why I provide six year projections; and our investment in the best large bank in America: Wells Fargo.

Performance this quarter

Growth portfolios have out-performed the S&P 500 over the long run but under-performed over periods of three years and less. I'd prefer to win every period, but must admit that only the long haul is a meaningful indicator of performance. We are winning over those periods and I expect that margin to widen over the fullness of time. Our superior holdings—purchased at cheap prices—make this quite likely.

Growth's out-performers this quarter were **Dell** and **Fairfax Financial.**

Dell climbed after reporting much better results than Wall Street expected. Investors continue to discount Dell's transformation from computer "box" maker to value-added commercial services provider, and over-emphasize its consumer business, which is only one-fifth of sales and less than one-tenth of profits. I expect Dell to bring additional happy surprises to investors.

Fairfax Financial is an insurance company that experienced a price dip in the 1st quarter as news about earthquake damage in Japan reached a peak. Fairfax's stock price recovered in the 2nd quarter as news from Japan turned less dire and investors were able to more fully digest insurance claim estimates. In the long run, Fairfax may benefit from this incident as insurance premiums climb to more rational levels.

Sears and **Wells Fargo** were growth's under-performers this quarter.

Sears declined due to both its own operational difficulties and another leg down in housing prices. Although Sears' operational problems are real, its new CEO, broadening online efforts, underlying real estate assets, and an eventual upturn in the housing market are all reasons to expect better things in Sears' future.

Wells Fargo (reviewed in the Investment Spotlight below) declined due to a slow lending environment and on-going concerns about regulatory and legal issues. Though difficult, these issues are temporary in nature and mask Wells Fargo's long term business model and soon-to-be lower costs after fully integrating its Wachovia acquisition. Wells Fargo, like Sears, will benefit when the housing market eventually turns up.

Equity income portfolios out-performed the S&P 500 Yield Plus Inflation over the last year, but continued to lag over all other time periods. Each quarter resemble two steps forward and one step back, but the trend is persistently upward. With a generous 3.9% yield (try finding that on inflation protected bonds!), superior underlying businesses, and the downside protection of high-grade debt instruments, our portfolios' path forward looks promising.

Equity income's out-performers were the same as growth's: **Dell** and **Fairfax**, discussed above. Its under-performers were **Wells Fargo**, also discussed above, and **Verizon Communications**.

Verizon pulled back as investors fret over how much it's paying to sign up new iPhone customers. Without a doubt, Verizon is paying more for the iPhone than it was for competing handsets, but investors' reaction gives little credit for the value of loyal iPhone customers, Verizon's superior network coverage, and improving profitability in its wireline business. Over time, the truth will out and Verizon's stock price will reflect those facts.

Market and economic outlook

The S&P 500 climbed 0.1% in the 2nd quarter. This low growth leads to slightly higher return projections looking forward, but not by much. In fact, my forecast returns are still meager by historical standards, strongly arguing for investing in cheaper securities with better return outlooks.

Projected annualized returns over the next 6 years	
S&P 500 (growth benchmark)	-2.6% to 9.3%
S&P-500-yield-plus-inflation (equity income benchmark)	3.4% to 6.4%

How do I arrive at these numbers? Visit "Free Articles" at www.athenacapital.biz to see my 7/12/05 excerpt.

© Copyright 2011 Athena Capital Management Corp. All rights reserved. Permission is hereby granted to electronically link, forward, or store this document in its entirety or to quote passages as long as source is attributed to "Michael Rivers, CFA, Athena Capital Management." Nothing in this letter should be considered investment, financial, tax, or legal advice. The opinions, estimates and projections contained herein are subject to change without notice. Information throughout this letter has been obtained from sources believed to be accurate and reliable, but such accuracy cannot be guaranteed.

Athena Capital Management

The market finally started to reflect underlying economic realities this quarter. Emerging market growth slowed as its central banks tackle inflation. Slower global growth also caused declining commodity prices. Add in rising unemployment claims in the U.S., another leg down in our housing markets, severe fiscal difficulties in Europe, and supply chain disruptions from Japan, and we had the recipe for a minor market pullback.

Whether that minor pullback turns major or ends up preceding another rally is impossible to forecast. If Europe's fiscal situation turns into panic, or if China's efforts to slow inflation results in an economic hard landing, then a major pullback will likely follow. However, if Europe succeeds in kicking its fiscal "can" down the road and China engineers a soft landing, the market may well take off. Which outcome ensues is not predictable because we humans have free will. So, it's best to be prepared for either eventuality.

Having invested in good companies purchased at reasonable prices, we're ready. Other investing methods require lucky predictions that are wrong more often than right. Only a focus on price paid for underlying fundamentals works over the long haul without the need for fortunate guesses. We're positioned accordingly.

Market projections—why bother?

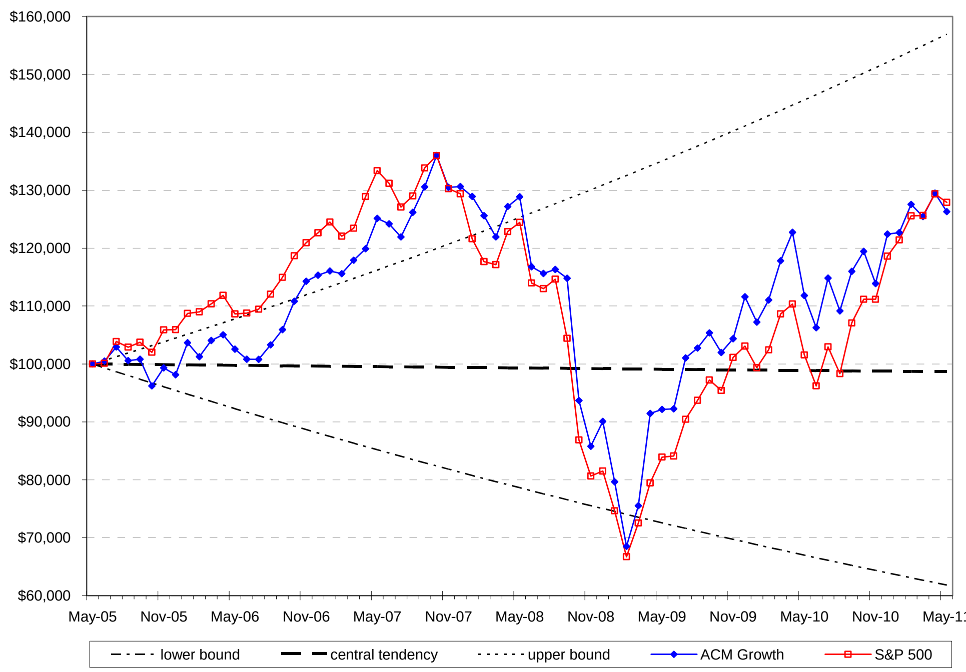
As you well know, **effective financial planning requires a long term focus**. Guessing what the market will do this year or next is like driving a car focusing three feet beyond the hood—it leads to over-controlled steering and missed turns. However, focusing out on the horizon makes it easier to smoothly control the car and make the turns necessary to reach one's destination.

Keeping our eyes out beyond the hood is hard to do, though, because there are lots of distractions. Not only are the kids in the back fighting, but the radio is on and the mobile phone keeps ringing. With the stock market, our attention is diverted by TV commentators like Jim Cramer, world events like Japan's earthquake, and political emergencies like Europe's fiscal situation. It's enough to drive any mere mortal off course.

To avoid these distractions and keep our eyes on the horizon, I provide six year market projections in each client letter. I hope this section puts some meat on the bones of why I regularly provide projections, and more importantly, **I hope it helps us better plan our financial well-being**.

This raises a relevant question: have my projections been at all useful? To answer, I'll review my projections from six years ago to see how they've stood the test of time (including some rather violent market swings). As you'll see, **my projections weren't pin-point precise, but did provide a constructive focal point.**

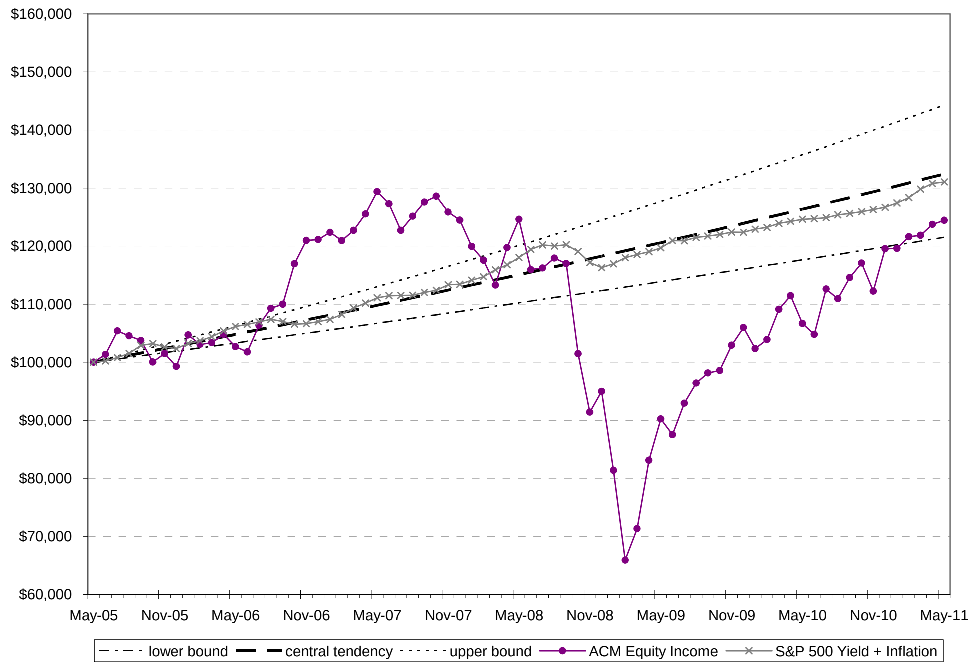
The graph below shows my growth benchmark projections of six years ago versus what actually happened. The dotted lines show my low-end forecast of -7.7% returns, high-end of 7.8% returns, and central tendency of around 0%. The red and blue lines show actual S&P 500 and growth portfolio returns. Over the last six years, **S&P 500 returns jumped above and below forecast range, but ended within**. Not spot-on precise, but a constructive horizon for focus.



The graph on the next page shows equity income forecasts and results. The light gray line with x's shows S&P 500 yield plus inflation and the purple line shows equity income returns. As above, the bottom and top dotted lines show lower and upper forecasts, 3.3% to 6.3% returns, and the middle dotted line shows central tendency between the two. **With equity income, the lower variability of the inputs—dividend yield and inflation—led to a better forecast**. In this case, the horizon proved even more helpful.

© Copyright 2011 Athena Capital Management Corp. All rights reserved. Permission is hereby granted to electronically link, forward, or store this document in its entirety or to quote passages as long as source is attributed to "Michael Rivers, CFA, Athena Capital Management." Nothing in this letter should be considered investment, financial, tax, or legal advice. The opinions, estimates and projections contained herein are subject to change without notice. Information throughout this letter has been obtained from sources believed to be accurate and reliable, but such accuracy cannot be guaranteed.

Athena Capital Management



A running joke on Wall Street is that market strategists—those who make short term stock market predictions—are like diapers: they need frequent changing and for the same reason. In contrast, **I've found that longer term projections—those greater than five years—can be accurate enough to be quite useful**. I hope my six year projections continue to help both you and I keep our eyes off the distractions and out on the horizon.

Investment Spotlight: Wells Fargo

O-ho the Wells Fargo Wagon is a-comin' down the street, Oh please let it be for me!

Music Man, by Meredith Willson

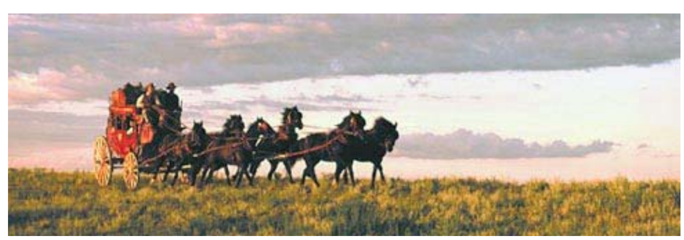
If you don't know that song, it's about a town full of people hoping to receive something off the Wells Fargo wagon: maple sugar, grapefruit from Tampa, a bathtub and crosscut saw from Montgomery Ward. **Will Wells Fargo shares deliver the same joy to us?** I think so, and to understand why, read on.

Wells Fargo has a long and storied history. It was started by Henry Wells and William Fargo in 1852 to capitalize on the California Gold Rush. With one bank in San Francisco and a coast to coast express system, it exchanged gold and bank drafts, and transported valuables. It was more express company than bank until the two separated in 1905. That proved to be a good move—Wells Fargo Express was nationalized in 1918 as part of World War I.

From 1923 to this century, Wells grew through several mergers and acquisitions: from two branches in San Francisco, to a regional California bank, then into one of the largest banks in the western U.S. Along the way, it helped start MasterCard in 1966 and launched online banking in 1989. Recently, during the financial crisis of 2008, it bought highly distressed Wachovia out from under even more stressed Citigroup. This netted a rock-bottom price and added 15 Eastern states to Wells' 24 in the West.

Today, it's a diversified financial services company doing banking, insurance, investments, mortgages, consumer credit, and commercial credit. With 9,000 stores in 39 states, it does business with one-third of all U.S. households, and manages $1.2 trillion in assets. It's the 4th largest U.S. bank with over 270,000 employees (more than the U.S. Marine Corps). Wells Fargo is the #1 U.S. bank in mortgage originations and small business lending, and #2 in deposits, credit cards and mortgage servicing. It's smaller than rivals JPMorgan, Bank of America and Citigroup because it has comparatively tiny investment banking and international operations. It can best be described as the largest community bank in the U.S.

To appreciate why I like Wells as an investment, it helps to understand how a bank makes money. Most simply, banks borrow money from depositors (checking & savings accounts) and lend to those who wish to borrow funds. Charging higher interest on loans than it pays on deposits, banks earn the spread between loan and deposit rate minus losses on bad loans (lend at 5%, pay depositors 1%, earn 4% spread). To make good money, banks want low deposit rates, high loan rates, and low loan losses.



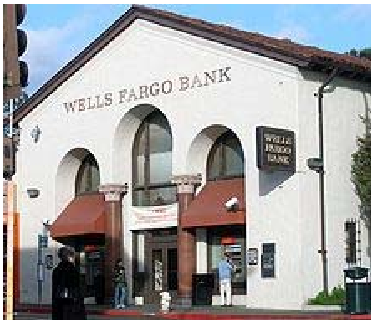
Wells Fargo excels because it does the above better than competitors. It keeps deposit rates low by focusing on mortgage escrow accounts, which pay no interest, and checking accounts, which pay little or no interest. Wells pursues a mix of loans with favorable risk/return

© Copyright 2011 Athena Capital Management Corp. All rights reserved. Permission is hereby granted to electronically link, forward, or store this document in its entirety or to quote passages as long as source is attributed to "Michael Rivers, CFA, Athena Capital Management." Nothing in this letter should be considered investment, financial, tax, or legal advice. The opinions, estimates and projections contained herein are subject to change without notice. Information throughout this letter has been obtained from sources believed to be accurate and reliable, but such accuracy cannot be guaranteed.

characteristics: like mortgages and SBA loans with government backing, and credit cards and used car loans with high rates to counter defaults. **In short, Wells Fargo earns the biggest spread of any large bank.**

Added to this, Wells Fargo has sticky customers. It realized long ago that customers with multiple products (checking, savings, investing, insurance, mortgage, credit card, car loan, etc.) tended *not* to shop around for high deposit interest and low loan rates (lowering Wells' interest spread). In fact, Wells sets goals that encourage customers to sign up for multiple products. At present, the average U.S. banking household has 16 products; Wells averages six with its customers and is working toward eight.

Part of Wells Fargo's secret sauce is local focus. The costs of a bank are almost the same whether it has one customer or 10,000 per store. But, if you spread the costs of advertising and administration over lots of stores and lots of customers in a local area, your costs per store and customer are lower. Recognizing this, Wells Fargo builds out regions, branches, stores and customers slowly and steadily to keep costs low. Being the biggest is only best if you're concentrated in a geographical area—Wells is.



Wells Fargo has a glorious past and an effective business model, but what's in it for you? A cheap price for starters: with $3.25 in earnings per share (normalized for cyclical factors) on $32.14 average cost, it generates a 10% earnings yield. That's nice. Its $0.48 dividend is a measly 1.5% yield, but will rise to one-third of earnings—3.4%—as banking regulators get more comfortable with economic conditions (unlike Bank of America and Citigroup, Wells was *never* in trouble).

Being cheap isn't the only benefit. **Wells Fargo still has quite a bit of room to grow**: it's in only 39 states, has two-thirds of U.S. households still to target, and only six of 16 products with current customers. Plus, its international operations have tremendous room to grow! With a lot of runway ahead, Wells can grow 6% to 10% for years to come.

What's the Wells Fargo wagon bringing to your town? With a better business model, sticky customers, local economics, and better execution, **I foresee The Wagon visiting your town four times a year with a growing bundle of dollars** for as far as my eye can see. *"Oh please let it be for me!"*

Until next quarter

As usual, thank you for your business. I'm as confident as ever that our results will be quite good over time. We hold good companies with superior management purchased at low prices, and that's all it takes to generate excellent returns.

If you have any questions, comments or feedback for me, please contact me at your convenience. It's always good to hear from you.

Respectfully yours,
Mike

Michael Rivers, CFA
Athena Capital Management
370 Waco Court, Colorado Springs, CO 80919
719-761-3148, mike@athenacapital.biz

© Copyright 2011 Athena Capital Management Corp. All rights reserved. Permission is hereby granted to electronically link, forward, or store this document in its entirety or to quote passages as long as source is attributed to "Michael Rivers, CFA, Athena Capital Management." Nothing in this letter should be considered investment, financial, tax, or legal advice. The opinions, estimates and projections contained herein are subject to change without notice. Information throughout this letter has been obtained from sources believed to be accurate and reliable, but such accuracy cannot be guaranteed.