



# DCM



## Dordt College Defender Capital Management Annual Report For the Year Ended December 31, 2011

### Report Summary:

Defender Capital Management's fifth year of operation featured a showdown between the bulls and the bears, as the S&P 500 withstood an incendiary situation in the Middle East to rise 8.9 percent by May 4, only to drop 21.6 percent over the next 5 months as the European debt crisis struck fear in the hearts of investors worldwide and devastated stock prices in the financials sector. A simultaneous downgrade in U.S. debt after politicians flirted with default only accelerated the decline. However, actions by the central banks of the Euro Zone and the United States, coupled with a drop in the unemployment rate to 8.5 percent and other favorable indicators, led to a strong fourth quarter that brought the S&P 500 exactly back to where it began the year.

With a front seat ride on this roller coaster, our portfolio matched the S&P 500 for the majority of the year before falling slightly behind in December, finishing the year down 2.7 percent with a -1.2 percent money weighted return. Our financial stocks in particular felt the sting of the market, losing nearly a quarter of their market value in 2011. However, since our inception as a club, Defender Capital Management has still outperformed the S&P 500, in terms of cumulative money weighted return, by 1.22 percent. In addition, we continue to seek to improve our portfolio by reviewing current holdings and assessing potential new purchases using industry and company analysis, dividend discount models, discounted cash flows, normalized ratios, and other qualitative and quantitative data.

Furthermore, we continue to see new members joining DCM to experience this exceptional opportunity, as an influx of 10 new members has kept our membership level steady from last year. My emphasis as president has been and will continue to be improving the accessibility and organization of the club through document updates, new tools for members to use, practical experiences such as proxy vote discussions, and ongoing development of our website ([www.dcmclub.wordpress.com](http://www.dcmclub.wordpress.com)).

Your support of the club, whether financial or advisory in nature, has been and will continue to be greatly appreciated. Such real world investing experiences are both rare and extraordinarily valuable, and I and the other club members consider ourselves privileged to have had this opportunity. We go into the new year excited to see what lies ahead and continue learning the principles of stewardship and prudential capital management.

Sincerely,

Michael Gorter  
President  
Defender Capital Management



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# Defender Capital Management

## I. Transactions

Dordt College Defender Capital Management					
Trade Log					
For the Year Ended December 31, 2011					
Trade Date	Quantity	Security	Unit Price	Amount	Commission
<b>PURCHASES</b>					
3/15/2011	153	SNY	\$ 32.84	\$ 5,024.21	\$ 7.00
3/15/2011	109	CAT	100.33	10,935.57	7.00
4/11/2011	551	C	4.54	2,501.04	7.00
4/11/2011	98	HPQ	41.02	4,019.96	7.00
5/4/2011	143	TGT	48.92	6,995.30	7.00
11/1/2011	44	IBM	183.08	8,055.33	7.00
12/14/2011	110	CLF	63.20	6,951.67	7.00
				<u>\$ 44,483.09</u>	<u>\$ 49.00</u>
<b>SALES</b>					
3/15/2011	225	IWB	\$ 71.42	\$ 16,069.95	\$ 7.31
4/11/2011	69	IWB	73.82	5,093.58	7.10
5/4/2011	91	IWB	75.21	6,844.11	7.14
11/1/2011	90	IWB	68.25	6,142.50	7.12
12/14/2011	97	IWB	67.26	6,524.22	7.13
12/20/2011	50	BAC	5.12	256.04	7.01
				<u>\$ 40,930.40</u>	<u>\$ 42.81</u>

As our portfolio has grown in size, we have begun increasing our average purchase price to keep our holdings at a reasonable number. This year, we added six new stocks. Both Sanofi-Aventis (SNY), a pharmaceutical company, and Cliffs Natural Resources (CLF), which mines and distributes iron ore, have solid business models with globalized operations and attractively low price to earnings ratios, as well as other positive valuation metrics. Caterpillar's (CAT) strong brand name and efforts to diversify both geographically and operationally led us to purchase this construction and industrial equipment manufacturer. We felt that Target (TGT) was undervalued based on its recent improvements in comparative store sales growth and purchase of 189 Zellers locations in Canada. Finally, our decision to acquire shares of International Business Machines (IBM) stemmed in part from their efforts to begin focusing more on the higher-margin components of their business. Repurchases of Citigroup and Hewlett-Packard followed sudden drops in their market prices. After reviewing the companies, we decided that nothing had fundamentally changed and dollar cost averaging would allow us to benefit from a turnaround. Unfortunately, this turnaround has not yet taken place, and uncertainty in the market has driven their prices down further.

In order to finance these acquisitions, we sold shares of our holding account, IWB, throughout the year. Following another review of Bank of America, we concluded that we should sell the company, as its recovery from the recession has lagged behind many of its competitors and the economy as a whole. In addition, the high risk levels and lack of consistent profitability do not match our conservative investing philosophy. Augmenting our decision is our ownership of U.S. Bank and Citigroup, which maintains our exposure to the industry should it start to improve.



## II. Portfolio Diversification

Dordt College Defender Capital Management Portfolio to S&P 500 Diversification Comparison December 31, 2011				
Industry	Percentage of S&P 500	Percentage of DCM Portfolio	Targeted Amount for Future Investments (%)	Targeted Amount for Future Investments (\$)
Consumer Discretionary	10.68%	7.50%	3.18%	<b>\$5,123</b>
Consumer Staples	11.34%	7.08%	4.26%	<b>\$6,852</b>
Energy	12.41%	7.88%	4.53%	<b>\$7,289</b>
Financials	13.73%	10.36%	3.37%	<b>\$5,417</b>
Health Care	11.77%	10.33%	1.44%	<b>\$2,320</b>
Industrials	10.80%	10.57%	0.23%	<b>\$376</b>
Information Tech	19.08%	19.52%	-0.44%	<b>-\$711</b>
Materials	3.57%	4.26%	-0.69%	<b>-\$1,113</b>
Telecommunications	2.90%	2.69%	0.21%	<b>\$343</b>
Utilities	3.72%	3.31%	0.41%	<b>\$652</b>

*\*Targeted investment amounts are calculated based on a total portfolio value of \$160,938.93, which includes all cash, stock, pledges, and holdings of IWB (the Russell 1000 ETF).*

With our purchase of Cliffs Natural Resources (CLF), we have accomplished one of our primary goals of diversification: to have exposure to every S&P 500 industry sector. Although overweighting or underweighting industries compared to the S&P 500 is a potentially advantageous value investing strategy, we believe that at least some exposure to each industry makes our portfolio stronger in the long run. We will likely look to continue expanding our consumer oriented stocks in 2012.

Despite an upward swing towards the end of the year, our financials stocks significantly underperformed the rest of our portfolio in 2011. Aflac (AFL: -23.34 percent), which primarily sells supplemental health and life insurance and conducts over three-quarters of its operations in Japan, felt the sting from the Japan tsunami in March and projected lower than expected earnings for 2012. Citigroup's (C: -43.61 percent) commercial banking division performed fairly well in 2011, but the investing banking division continued to fall short of expectations. On the other hand, our utility stock, Sempra Energy (SRE: +4.80 percent), bucked the market by gaining almost 5 percent on the year behind steadily improving earnings and an increased dividend. Utilities tend to be somewhat countercyclical as demand is largely insensitive to market downturns.

Industry	Q4 Performance	2011 Performance
Consumer Discretionary	5.29%	2.03%
Consumer Staples	3.42%	-5.05%
Energy	2.82%	3.03%
Financials	14.22%	-24.33%
Health Care	6.36%	3.62%
Industrials	19.71%	-5.01%
Information Tech	12.73%	-8.72%
Materials	-1.34%	-1.34%
Telecommunications	6.03%	2.93%
Utilities	6.80%	4.80%



## III. Statement of Position

Dordt College Defender Capital Management										
Statement of Position										
December 31, 2011										
Security	Shares Owned	Purchase Price	Total Cost	Current Price	Market Value	Gain / (Loss)	Percent Change	Percent of Portfolio	Ending Beta	Weighted Beta
ADP	121	\$ 41.31	\$ 4,998.36	\$ 54.01	\$ 6,535.21	\$ 1,536.85	30.75%	4.06%	0.69	0.028
AFL	132	45.51	6,007.04	43.26	5,710.32	(296.72)	-4.94%	3.55%	1.84	0.065
C	163	46.06	7,507.62	26.31	4,288.53	(3,219.09)	-42.88%	2.66%	2.54	0.068
CAT	109	100.33	10,935.57	90.60	9,875.40	(1,060.17)	-9.69%	6.14%	1.86	0.114
CHK	211	23.72	5,004.48	22.29	4,703.19	(301.29)	-6.02%	2.92%	1.27	0.037
CLF	110	63.20	6,951.67	62.35	6,858.50	(93.17)	-1.34%	4.26%	2.49	0.106
CSCO	330	19.85	6,550.50	18.08	5,966.40	(584.10)	-8.92%	3.71%	1.17	0.043
CVX	75	68.64	5,147.99	106.40	7,980.00	2,832.02	55.01%	4.96%	0.79	0.039
DRI	104	48.35	5,028.30	45.58	4,740.32	(287.98)	-5.73%	2.95%	0.89	0.026
HPQ	194	46.70	9,059.80	25.76	4,997.44	(4,062.36)	-44.84%	3.11%	1.14	0.035
IBM	44	183.08	8,055.33	183.88	8,090.72	35.39	0.44%	5.03%	0.66	0.033
INTC	330	15.11	4,985.64	24.25	8,002.50	3,016.86	60.51%	4.97%	1.08	0.054
IWB	374	58.10	21,729.40	69.37	25,944.38	4,214.98	19.40%	16.12%	1.00	0.161
JNJ	100	50.07	5,006.80	65.58	6,558.00	1,551.20	30.98%	4.07%	0.55	0.022
MSFT	168	23.82	4,001.36	25.96	4,361.28	359.92	9.00%	2.71%	0.98	0.027
PG	100	50.36	5,036.00	66.71	6,671.00	1,635.00	32.47%	4.15%	0.46	0.019
SNY	153	32.84	5,024.21	36.54	5,590.62	566.41	11.27%	3.47%	0.89	0.031
SRE	97	52.44	5,086.68	55.00	5,335.00	248.32	4.88%	3.31%	0.54	0.018
SYK	90	55.50	4,995.00	49.71	4,473.90	(521.10)	-10.43%	2.78%	0.87	0.024
T	143	26.03	3,722.19	30.24	4,324.32	602.13	16.18%	2.69%	0.62	0.017
TEX	44	56.40	2,481.60	13.51	594.44	(1,887.16)	-76.05%	0.37%	2.81	0.010
TGT	143	48.92	6,995.30	51.22	7,324.46	329.16	4.71%	4.55%	0.89	0.041
USB	247	26.31	6,498.08	27.05	6,681.35	183.27	2.82%	4.15%	0.98	0.041
WAG	143	39.56	5,656.79	33.06	4,727.58	(929.21)	-16.43%	2.94%	0.97	0.028
			\$ 156,465.70		\$ 160,334.86	\$ 3,869.16		99.62%		1.084
	Cash		\$ 604.07		\$ 604.07			0.38%		
<b>TOTAL PORTFOLIO</b>			<b>\$ 157,069.77</b>		<b>\$ 160,938.93</b>			<b>100.00%</b>		

As of December 31, our unrealized gains amount to \$3,869.16, but, as noted below on the Cumulative Performance report, total portfolio gains to date are much higher at \$26,438.93 due to realized gains. In addition to those listed earlier, another company with a disappointing 2011 performance was Walgreen (WAG: -15.14 percent), whose contract with Express Scripts fell apart over pricing disputes. Express Scripts controls roughly one-third of the Pharmacy Benefit Management market, which administers prescription drug programs. In contrast, Intel (INTC: +15.31 percent) surged ahead this year, with profit for the year \$1.5 billion above the 2010 level, which itself was a record shattering year. Interestingly enough, given the recent popularity of tablets and perception of the decline of the PC, Intel's strongest component growth for the year was in its PC Client Group division.



## IV. 2011 Income

Dordt College Defender Capital Management								
Statement of Dividends and Interest								
For the Year Ended December 31, 2011								
DIVIDENDS								
Security	Q1	Q2	Q3	Q4	2011 Total	2011 Yield	2010 Total	2010 Yield
ADP	\$ 43.56	\$ 43.56	\$ 43.56	\$ 43.56	\$ 174.24	2.67%	\$ 123.42	2.94%
AFL	39.60	39.60	39.60	43.56	162.36	2.84%	150.48	2.02%
BAC	0.50	0.50	0.50	0.50	2.00	0.80%	2.00	0.30%
C	-	1.63	1.63	1.63	4.89	0.11%	-	0.00%
CAT	-	47.96	50.14	50.14	148.24	2.00%	-	-
CHK	15.83	15.83	18.46	18.46	68.58	1.46%	31.66	1.16%
CSCO	-	19.80	19.80	19.80	59.40	1.33%	-	-
CVX	54.00	58.50	58.50	60.75	231.75	2.90%	213.00	3.11%
DRI	33.28	33.28	44.72	44.72	156.00	3.29%	-	-
GRMN	-	-	-	-	-	-	34.50	5.15%
HPQ	7.68	7.68	23.28	23.28	61.92	1.24%	15.36	0.76%
IBM	-	-	-	33.00	33.00	1.63%	-	-
INTC	59.80	59.80	69.30	69.30	258.20	3.23%	207.92	3.00%
IWB	209.22	187.32	172.30	153.45	722.29	2.78%	920.83	1.39%
JNJ	54.00	57.00	57.00	57.00	225.00	3.43%	211.00	3.41%
MSFT	26.88	26.88	26.88	33.60	114.24	2.62%	26.88	2.29%
PG	48.18	52.50	52.50	52.50	205.68	3.08%	188.54	2.93%
SNY	Annual Div	Annual Div	Annual Div	Annual Div	202.35	3.62%	-	-
SRE	37.83	46.56	46.56	46.56	177.51	3.33%	151.32	2.97%
SYK	16.20	16.20	16.20	16.20	64.80	1.45%	40.50	1.12%
T	61.49	61.49	61.49	61.49	245.96	5.69%	120.12	5.72%
TGT	-	35.75	42.90	42.90	121.55	2.21%	-	-
USB	12.35	30.88	30.88	30.88	104.99	1.57%	-	-
WAG	25.03	25.03	32.18	32.18	114.42	2.42%	89.38	1.60%
<b>Total Dividends</b>	<b>\$ 745.43</b>	<b>\$ 867.75</b>	<b>\$ 908.38</b>	<b>\$ 935.46</b>	<b>\$ 3,659.37</b>		<b>\$ 2,526.91</b>	
Interest	\$ 0.07	\$ 0.02	\$ 0.03	\$ 0.02	\$ 0.14		\$ 5.20	
<b>Total Income</b>	<b>\$ 745.50</b>	<b>\$ 867.77</b>	<b>\$ 908.41</b>	<b>\$ 935.48</b>	<b>\$ 3,659.51</b>	<b>2.27%</b>	<b>\$ 2,532.11</b>	<b>1.91%</b>

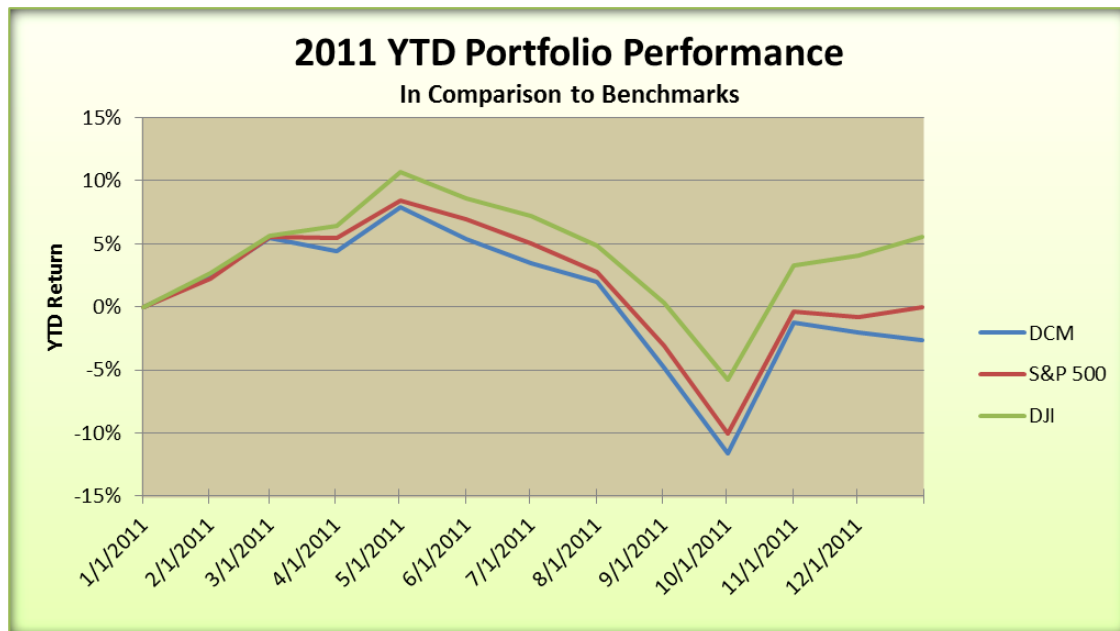
Our superstar income stock, AT&T (T), continued to issue robust dividends throughout 2011, giving it a yield of 5.69 percent on the year. With the exception of Terex (TEX), every stock paid out at least a nominal dividend, giving our portfolio a total annual income yield of 2.27 percent, surpassing our 2010 income by 44.5 percent! Another positive sign is the continual growth in income from quarter to quarter in 2011. Of the 20 stocks we held over multiple dividend periods, 15 increased their dividend during the year at some point. IWB shows a decrease in dividends over the course of the year, but this is solely due to the decrease in our holdings in the ETF, as the per share dividend increased.



# Defender Capital Management

## V. Fourth Quarter Performance

Dordt College Defender Capital Management			
Consolidated Performance Reports			
For the Quarter Ended December 31, 2011			
<b>Change in Portfolio Value</b>			
Portfolio Value on 9-30-11		\$	146,200.29
Contributions		\$	-
Realized Gains*		\$	7.30
Change in Unrealized Gains**	\$	13,795.86	
Interest	\$	0.02	
Dividends	\$	935.46	
Change in Portfolio Value		\$	14,731.34
Portfolio Value on 12-31-11		\$	160,938.93
<b>Fourth Quarter Returns</b>			
Beginning Invested Value		\$	144,412.20
Ending Invested Value		\$	160,334.86
<b>Money Weighted Return</b>			<b>11.01%</b>
Risk Weighted IRR***			10.16%
Total Period Return			10.08%
<b>S &amp; P 500</b>			<b>11.15%</b>
DJIA			11.95%
<b>Cash Activity</b>			
Beginning Cash	\$	1,788.09	
Dividends		935.46	
Interest		0.02	
Sales		12,922.76	
Invested Cash		(15,007.00)	
Trading Fees		(35.26)	
Ending Cash	\$	604.07	
<p>*Realized and unrealized gains are shown on a net basis reflecting all applicable fees and commissions.  **The amount shown as an unrealized gain is the net change in unrealized gains since the previous report.  ***The Risk Weighted IRR is calculated using the weighted beta of the portfolio at the end of the reporting period.  ****The Money Weighted Return is calculated assuming net invested cash was added to the portfolio midquarter.</p>			





# Defender Capital Management

## VI. 2011 Performance

Dordt College Defender Capital Management Consolidated Performance Reports For the Year Ended December 31, 2011			
<b>Change in Portfolio Value</b>			
Portfolio Value on 01-01-11		\$ 165,331.92	
Contributions		\$ -	
Realized Gains*	\$ 4,748.17		
Change in Unrealized Gains**	\$ (12,800.67)	\$ (8,052.50)	
Interest	\$ 0.14		
Dividends	\$ 3,659.37	\$ 3,659.51	
Change in Portfolio Value		\$ (4,392.99)	
Portfolio Value on 12-31-11		\$ 160,938.93	
<b>2011 Returns</b>			
Beginning Invested Value		\$ 165,331.92	
Ending Invested Value		\$ 160,938.93	
<b>Money Weighted Return</b>		<b>-1.23%</b>	
Risk Weighted IRR***		-1.13%	
Total Period Return		-2.66%	
<b>S &amp; P 500</b>		<b>0.00%</b>	
DJIA		5.53%	
<b>Cash Activity</b>			
Beginning Cash	\$ 589.06		
Dividends	3,659.37		
Interest	0.14		
Sales	40,930.40		
Invested Cash	(44,483.09)		
Trading Fees	(91.81)		
Ending Cash	\$ 604.07		

Returns by Period			
	DCM	S&P 500	DJIA
January	2.41%	2.26%	2.72%
February	3.01%	3.20%	2.81%
March	-1.04%	-0.10%	0.76%
April	3.38%	2.85%	3.98%
May	-2.33%	-1.35%	-1.88%
June	-1.85%	-1.83%	-1.24%
July	-1.44%	-2.15%	-2.18%
August	-6.70%	-5.68%	-4.36%
September	-7.06%	-7.18%	-6.03%
October	11.69%	10.77%	9.54%
November	-0.79%	-0.51%	0.76%
December	-0.65%	0.85%	1.43%
<b>Quarter One</b>	<b>4.40%</b>	<b>5.42%</b>	<b>6.41%</b>
<b>Quarter Two</b>	<b>-0.90%</b>	<b>-0.39%</b>	<b>0.77%</b>
<b>Quarter Three</b>	<b>-14.53%</b>	<b>-14.33%</b>	<b>-12.09%</b>
<b>Quarter Four</b>	<b>10.08%</b>	<b>11.15%</b>	<b>11.95%</b>
<b>Year-to-Date</b>	<b>-2.66%</b>	<b>0.00%</b>	<b>5.53%</b>

\*Realized and unrealized gains are shown on a net basis reflecting all applicable fees and commissions.  
 \*\*The amount shown as an unrealized gain is the net change in unrealized gains since the previous report.  
 \*\*\*The Risk Weighted IRR is calculated using the weighted beta of the portfolio at the end of the reporting period.  
 \*\*\*\*The Money Weighted Return is calculated assuming net invested cash was added to the portfolio mid year

