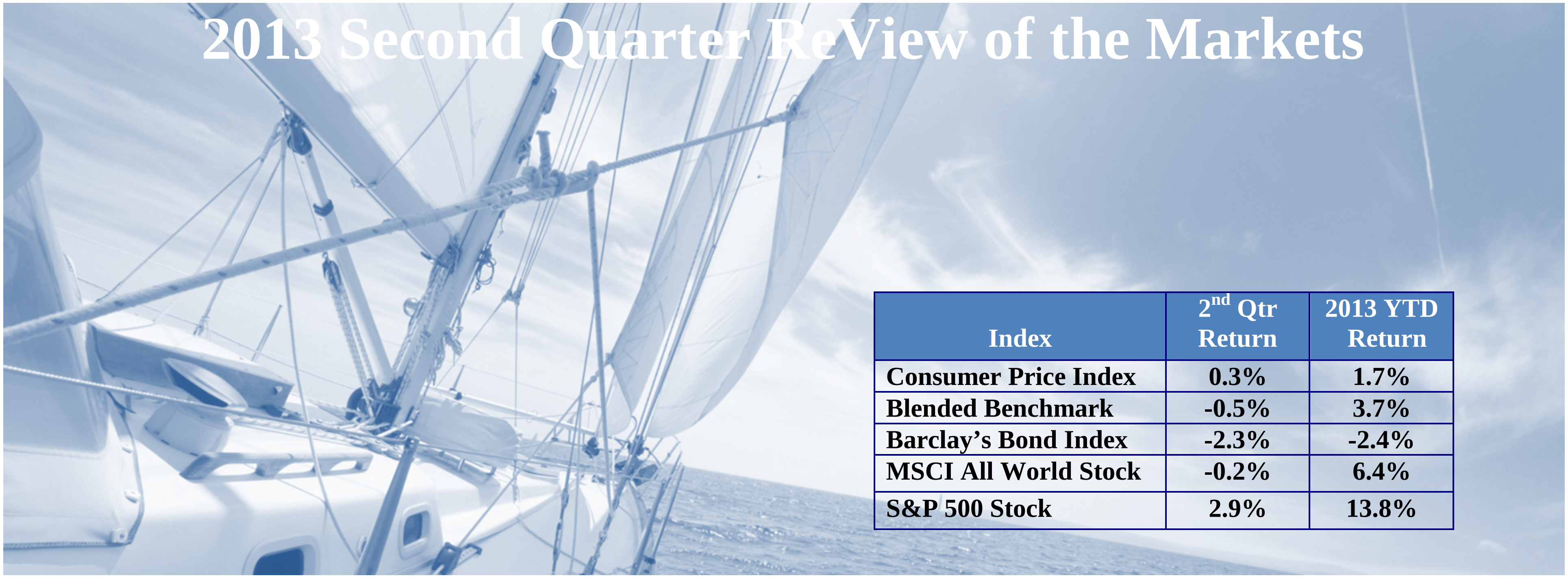
2013 Second Quarter ReView of the Markets



Index	2nd Qtr Return	2013 YTD Return
Consumer Price Index	**0.3%**	**1.7%**
Blended Benchmark	**-0.5%**	**3.7%**
Barclay's Bond Index	**-2.3%**	**-2.4%**
MSCI All World Stock	**-0.2%**	**6.4%**
S&P 500 Stock	**2.9%**	**13.8%**

Second Quarter Investment Commentary

The second quarter of 2013 started out much the same way as the first quarter 2013 finished, with the major indexes pushing higher. This strength occurred despite some pretty impressive headwinds, the largest being the fact that there was almost no correction in the markets since they took off back in mid-November. Typically, in a bull market, you have a series of minor corrections along the way, but this run was much smoother than is typical.

In our last ReView, we predicted that the next major move in stock and bond markets would be caused by a reduction of the exceptionally easy money policies of the Federal Reserve. In mid-May Ben Bernanke merely raised the prospect of accommodative monetary policy, contingent on continued economic improvement, and this caused volatility to return with a vengeance in global investment and financial markets. When all was said and done, for the quarter, the MSCI All World stock index was flat while the S&P 500 was up 2.9%.The Blended Benchmark was down .5% for the quarter and up 3.7% for the year. We view the United States' relative resilience as indicative of the better underlying economic conditions. We also see global recognition that the Fed can choose to continue its easy money policies if the economy weakens (which is comforting) or can begin easing off the accelerator if the economy continues to strengthen (which is also positive). Put simply, we believe investors have realized that the Fed is navigating the difficult economic landscape reasonably well and is effectively in the driver's seat when it comes to global monetary policy.

Fixed income was hit particularly hard in the quarter with long U.S. Treasury bonds down 9.8% and the broad based Barclay's bond index down 2.3%. This emphasizes the risk inherent in fixed income investments in a rising rate environment. Gold, which is typically viewed as a safe haven during periods of market turmoil, was not spared – losing 15% during the May through June period, while declining 24% for the year.

Economic Outlook

U.S. economic data have continued to show generally decent growth led by the bedrock of the U.S. economy – the consumer. The improvement in consumer spending can be attributed to the more favorable financial condition of consumers after years of deleveraging. We believe that U.S. economic growth will continue in the 2% per year range over the next several years and that inflation will be around 1% to 2% annually. The economic risk continues to come from overseas and here the picture is mixed. The developed countries in Europe appear to be bottoming, but with ever present political risk. While we believe in the long term growth of many emerging markets, we remain aware of the potential fundamental risk, most notably a slowdown in China, and have factored these into our model portfolios.

Investment Strategy

Interest rates have been on a downward spiral for 30 years from the high double-digit rates of the early 1980's to low single-digits recently. This trend has been exacerbated by the aftermath of the 2008 financial crisis with world-wide central banks, such as the Federal Reserve, flooding the markets with liquidity to force interest rates to artificially lows. With interest rates at all-time lows, investors' poured money into investments with higher yields such as long bonds, lower quality bonds, and real-estate investment trusts. As a result, these and similar assets carry much higher than normal relative valuations and, thus, are especially vulnerable to any market headwinds and higher interest rates.

We believe that the Fed's discussion of tapering was deliberate and served to begin the process of the market's new trend of increasing interest rates. The common thread to the officials' comments is that the central bank will be very mindful of the accumulated economic data as it decides how to proceed, and it has no plans to raise benchmark rates soon. The Fed officials also appeared to be trying to remind the markets of the risk involved with increasing rates and that investors should not be complacent. We believe that higher rates will not be a straight line process, and there will be fits and starts, but the trend over the next few years will probably be higher. This change will have a broad based impact on financial and investment markets. Because of this, we will be making changes to your investment posture in a deliberate and disciplined manner. While we have taken a defensive stance in fixed income over the last couple of years, we will now take an even more defensive stance. One thing that is far more certain than predicting the equity markets is the fact that fixed income investments are really going to hurt investors who have moved toward them solely for their perceived safety. As noted, we saw upward pressure on interest rates, and bond holders had one of the worst quarters in history. Investment sectors such as utilities that are bought mainly for their high yield will be reduced. Sectors that are bought for strong cash flow, such as growth stocks and energy, will be emphasized. ***If***, and it's a big ***if***, the Federal Reserve can manage to get interest rates to more normalized levels over the next few years without damaging the economy, then we could see a prolonged period of economic growth with continued strong markets.