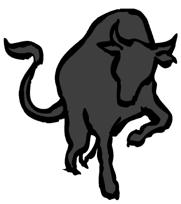
THE FINANCIAL ADVISORY GROUP, INC.

2013 1st Qtr. ReView of the Markets



Index	2013 YTD Return
S & P 500	10.6%
NASDAQ	8.2%
Russell 2000	12.4%
MSCI EAFE	5.1%
Barclay's Bond Index	-0.1%
Consumer Price Index	1.4%

First Quarter Investment Commentary

Supported by an aggressive Federal Reserve, economic fundamentals continued to grudgingly improve during the first quarter. The Fed liquidity promotes economic growth, lower interest rates and a large amount of capital that "needs to be invested somewhere." All these factors tend to encourage investing and provides more capital in risk assets including equities and helps drive market gains. During the quarter U.S. stocks, which we have been emphasizing, returned 10.6% while foreign stocks returned 5.1% and emerging market stocks were down 4%. Fixed income returns were flat to negative with long U.S. treasuries down 4%. The overall bond index was down 0.1% and municipal bond returns were also flat for the quarter.

Economic Outlook

The consumer sector, responsible for more than 70% of the U.S. economy, seems to be weathering higher taxes and the reduction in government spending better than expected through the first quarter of 2013. Notably, some of this strength is stemming from a significant rebound in consumer wealth since the bottom of the recession. The rebound has been driven by the appreciation of home prices and financial assets which represent roughly 67% of household wealth. In addition to households, corporate cash and balance sheets are the strongest they have been in decades and thus corporations have significant room to spend and invest excess capital.

However, we face major economic uncertainties surrounding U.S. government policy, both fiscal and monetary; specifically, what policies will be adopted as well as their ultimate impact on economic and financial markets. Regarding fiscal policy, there is clearly a mismatch between federal revenue and spending. We don't think that this mismatch creates an immediate federal deficit crisis, but there is a high risk of a crisis in the medium to longer term.

This calls for a strong and credible long-term fiscal policy response and the sooner the better. We won't hold our breath, but maybe our political leaders in Washington are starting to get the message. If so, that could be a major positive catalyst for both the financial markets and the real economy. On the other hand, it may yet take a crisis to create the political will necessary to implement meaningful structural fiscal changes. On the monetary policy side, the Fed is not close to starting to unwind their stimulative polices. There is, however, significant uncertainty as to the medium- to longer-term ramifications and unintended consequences of these policies, and whether or not the Fed's ultimate exit plan will be executed successfully and without collateral damage. Based on the Fed's historical record of policy overshooting and the inherent complexity of the task at hand, we question whether the Fed will be able to get it right.

In summary, we expect an environment of subdued growth and continued low interest rates as deleveraging continues and monetary policy loses its efficacy. This should come as no surprise to our readers as this is the scenario we have been predicting for the last few years. Inflation will likely remain tame in the near term, but revive over the longer term.

Investment Strategy

With U.S. stocks hitting new highs, we are naturally getting two questions from clients:

1. With risk assets up so much, shouldn't we reduce our exposure (to lock in gains, given all of the big picture risks)?
2. With stocks up so much, shouldn't we increase our exposure (since the economy must be much better than people expected)?

These are both good questions and not unusual among investors today. They can also provide a good starting point for discussing a client's true risk tolerance, mindset, and investment objectives. Our short answer to both questions right now is, "no". As already noted, Fed actions continue to be an important support and driver of short-term stock market performance. While central bank actions have always influenced the stock market, markets today appear highly attuned to and reliant on continued accommodative Fed policy. Over the near term we don't see a catalyst for Fed policy to become restrictive, so that leg of support to the markets is likely to remain in place. But the uncertainty increases as the time horizon extends, and we believe that the end of easy money will most likely be the next major event to heavily impact investment and financial markets.

For these reasons, for the time being, we expect to remain firm in our equity exposure with a heavy emphasis on large, U.S. domiciled stocks. Fixed income still has a place in balanced portfolios but the potential for rising rates dictates a portfolio with a short term bent to it. Finally, it's good to remember that investing is a marathon, not a sprint. The key is to maintain discipline. We analyze the longer term with far greater confidence, and invest accordingly, but realizing the benefits demands the discipline to ignore inevitable shorter term gyrations that are impossible to predict with consistency. Succumbing to the temptation to jump into "what's working" based on a recent run of outperformance is a path to disappointment and subpar long-term investment results.