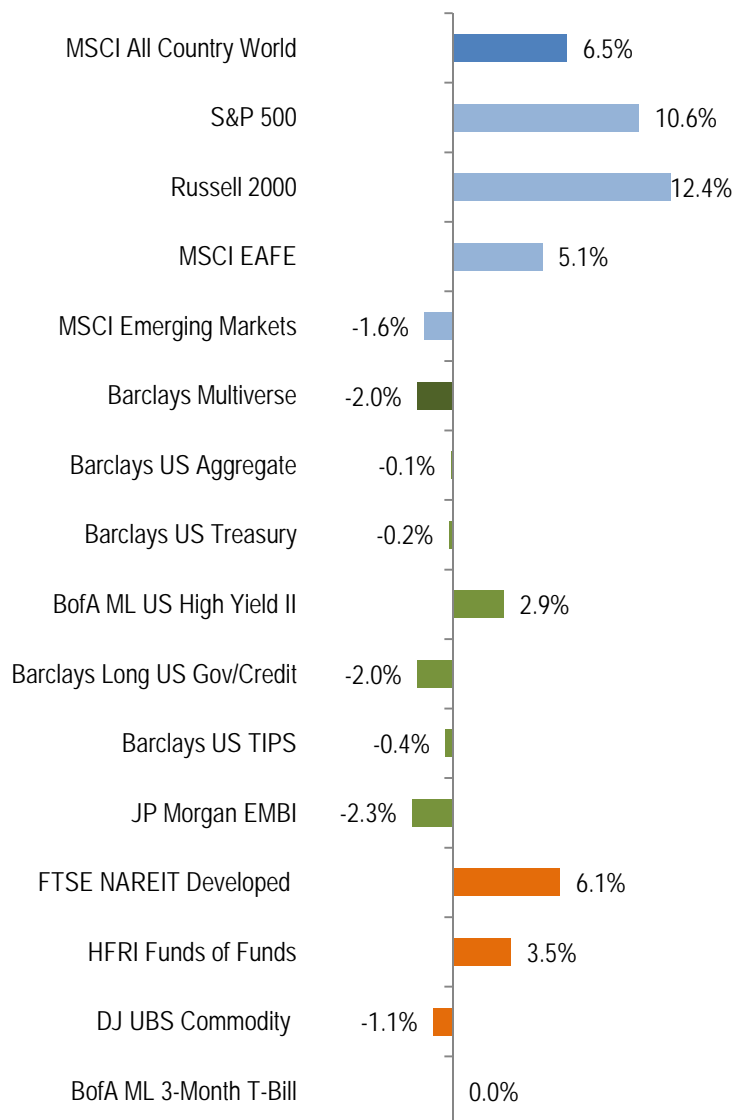


As of March 31, 2013

First Quarter 2013



First Quarter 2013: Don't Fight the Fed (or the BoJ)

Investors pushed sequestration worries to the side as the S&P 500 ended the quarter at an all-time record high of 1,569. Improving numbers in the US housing and labor markets helped spark investor enthusiasm, contributing to the 10.6% return over the first three months of the year. Private payrolls continued to expand and housing prices rose steadily upward, while Congress reached a deal in late January to suspend the federal debt limit and alleviate the near-term risk of a potential debt default. World stock markets also rose as confidence grew that Shinzo Abe's Japanese reflationary policies would succeed.

Not all the headlines for the first quarter were positive, however. The Italian Parliament Election stalemate threatened to derail structural domestic economic reforms, as the country continues to struggle with prolonged recession, high unemployment, and unsustainable public debt levels. The IMF and the European Union engineered a bailout for the island nation of Cyprus in exchange for bank restructuring, public pension cuts, and welfare reform. China's new leadership indicated that it is looking to cool off the real estate market in the emerging giant, raising concerns that the slowdown in property investment could ripple across the economy.

Federal Reserve minutes released in February suggested internal disagreement on the pace and length of the Fed's bond buying programs, which have expanded the central bank's balance sheet to over \$3 trillion, a new record. Federal Reserve chairman Ben Bernanke was quick to reiterate that the FOMC remains committed to open-ended bond buying although he was less committal about his future chairmanship as he entered the final year of his second term.

Looking ahead, we see potential concern for the economy and markets when the Fed begins to slow, let alone unwind, its stimulus efforts. Some warning signs of potential future inflation exist, and the Fed's primary mandate is price stability. While top-line CPI growth has been stable and slow, the prices of such staples as eggs, bread, transportation, housing, milk, and meat are all rising faster than CPI. Eventually, the Fed's designs on macroeconomic stability will conflict with its goals of price stability, and the associated risks of rising rates that are beyond its control could threaten not just the economic recovery, but the Federal budget. In this context, long-term Treasury rates rose modestly, and most fixed income returns were flat in the quarter.

	<u>QTD</u>	<u>YTD</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
S&P 500	10.6%	10.6%	14.0%	12.7%	5.8%	8.5%
Russell 2000	12.4%	12.4%	16.3%	13.5%	8.2%	11.5%
MSCI EAFE	5.1%	5.1%	11.3%	5.0%	(0.9%)	9.7%
MSCI Emerging Markets	(1.6%)	(1.6%)	2.0%	3.3%	1.1%	17.1%
Barclays US Aggregate	(0.1%)	(0.1%)	3.8%	5.5%	5.5%	5.0%
Barclays US Treasury	(0.2%)	(0.2%)	3.1%	5.4%	4.4%	4.6%
HFRI Fund of Funds	3.3%	3.3%	4.7%	2.1%	(0.2%)	3.8%
BofA ML 3-Month T-Bill	0.0%	0.0%	0.1%	0.1%	0.3%	1.8%

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Newly installed Japanese prime minister Shinzo Abe announced a \$117 billion fiscal stimulus plan while he continued to pressure the Bank of Japan to fight deflation.

Warren Buffet announced that Berkshire Hathaway and Brazilian firm 3G Capital had agreed to purchase the ketchup maker Heinz in a \$23 billion deal.

The S&P 500 sets a new nominal high, surpassing the previous record level of 1,565 set in October 2007.

The Federal Reserve's large-scale asset purchases of Treasuries and mortgage-backed securities pushed the central bank's balance sheet to a record \$3 trillion in assets.

In Italy, an inconclusive general election left no party with enough votes to form a government, raising the prospect of a deadlocked parliament unable to deal with the prolonged recession, unemployment, and public debt.

Small Cyprus depositors were spared as the IMF, the European Union, and Cyprus agreed to a new bailout plan for the island nation's troubled banks.

Congress passes a deal to avert the fiscal cliff.

Congress reaches an agreement to temporarily suspend the federal debt limit.

1462

1569

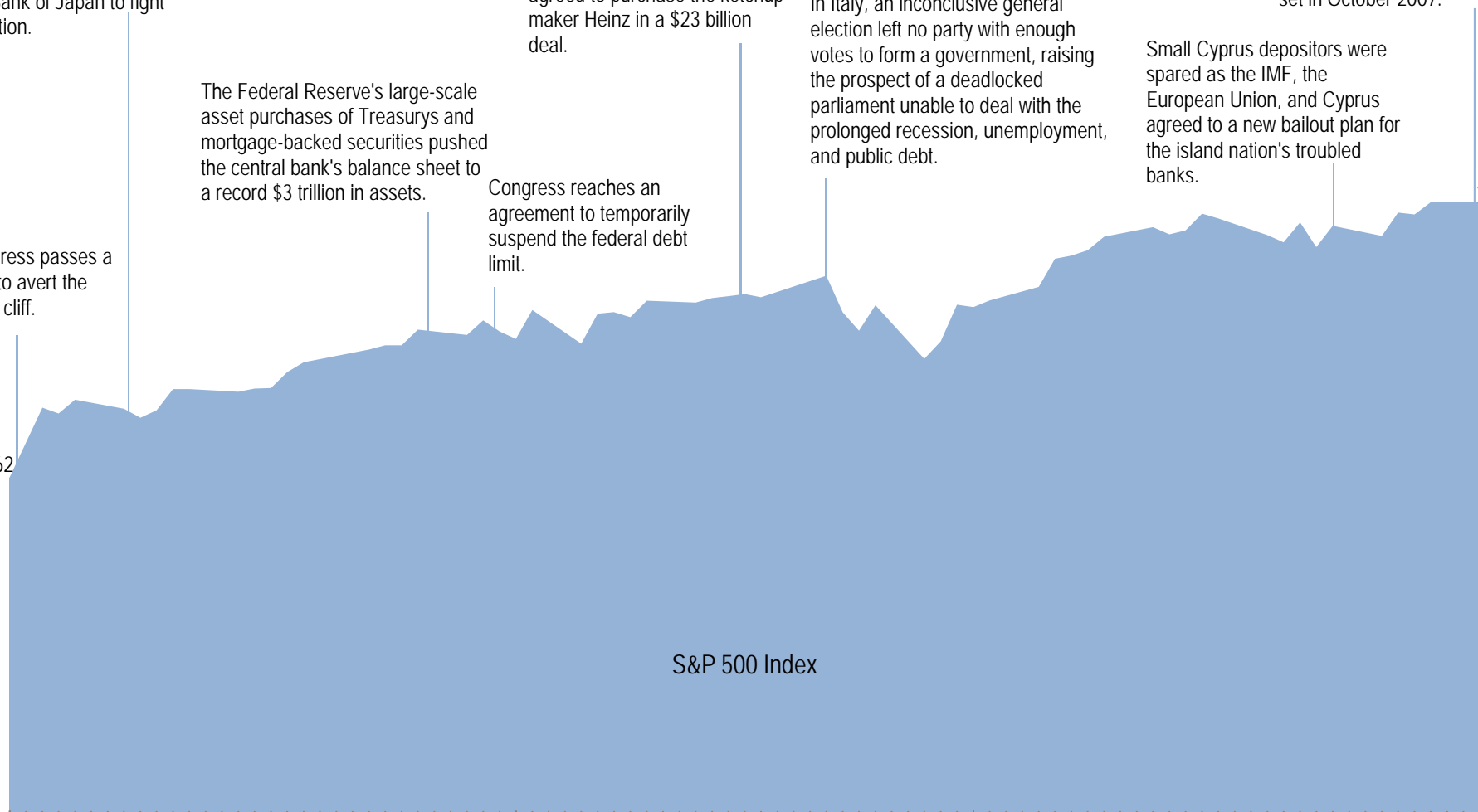
S&P 500 Index

12/31/12

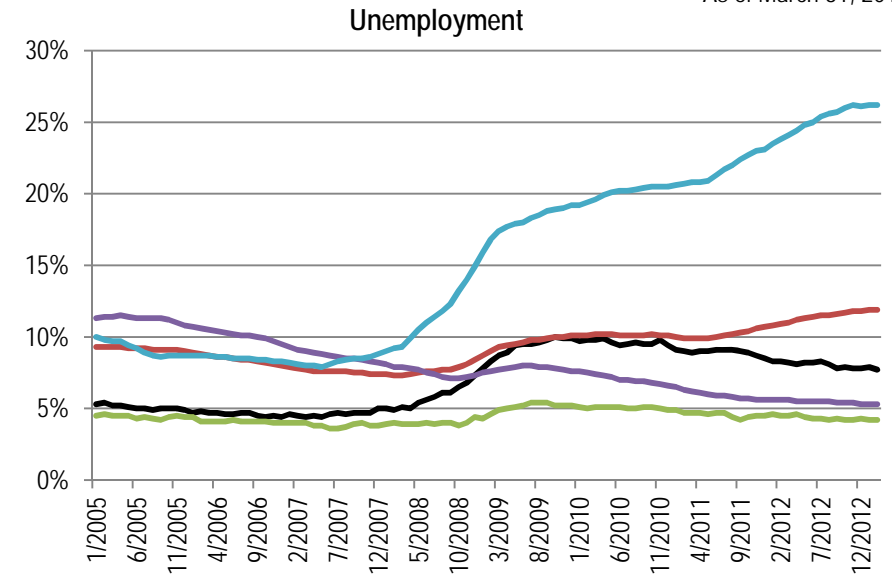
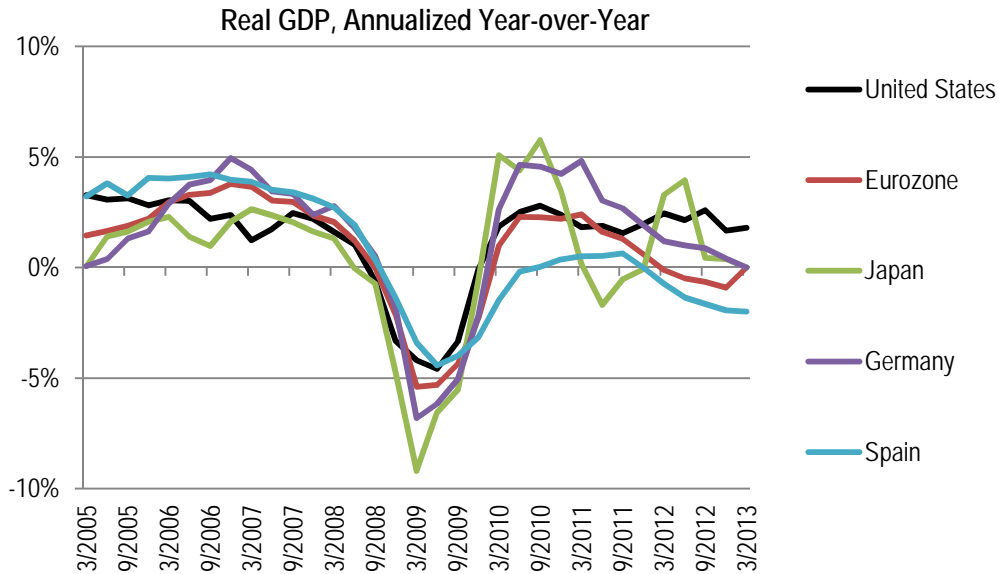
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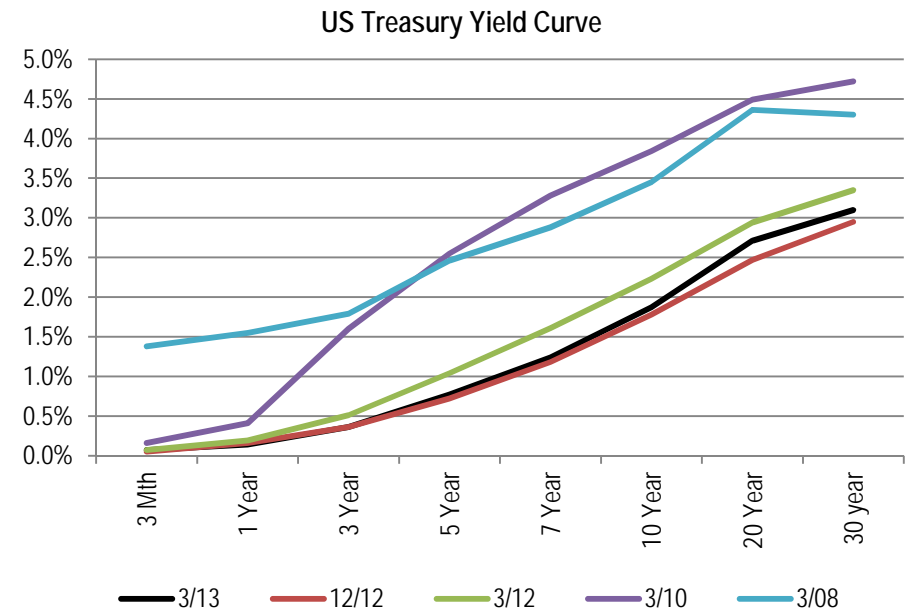
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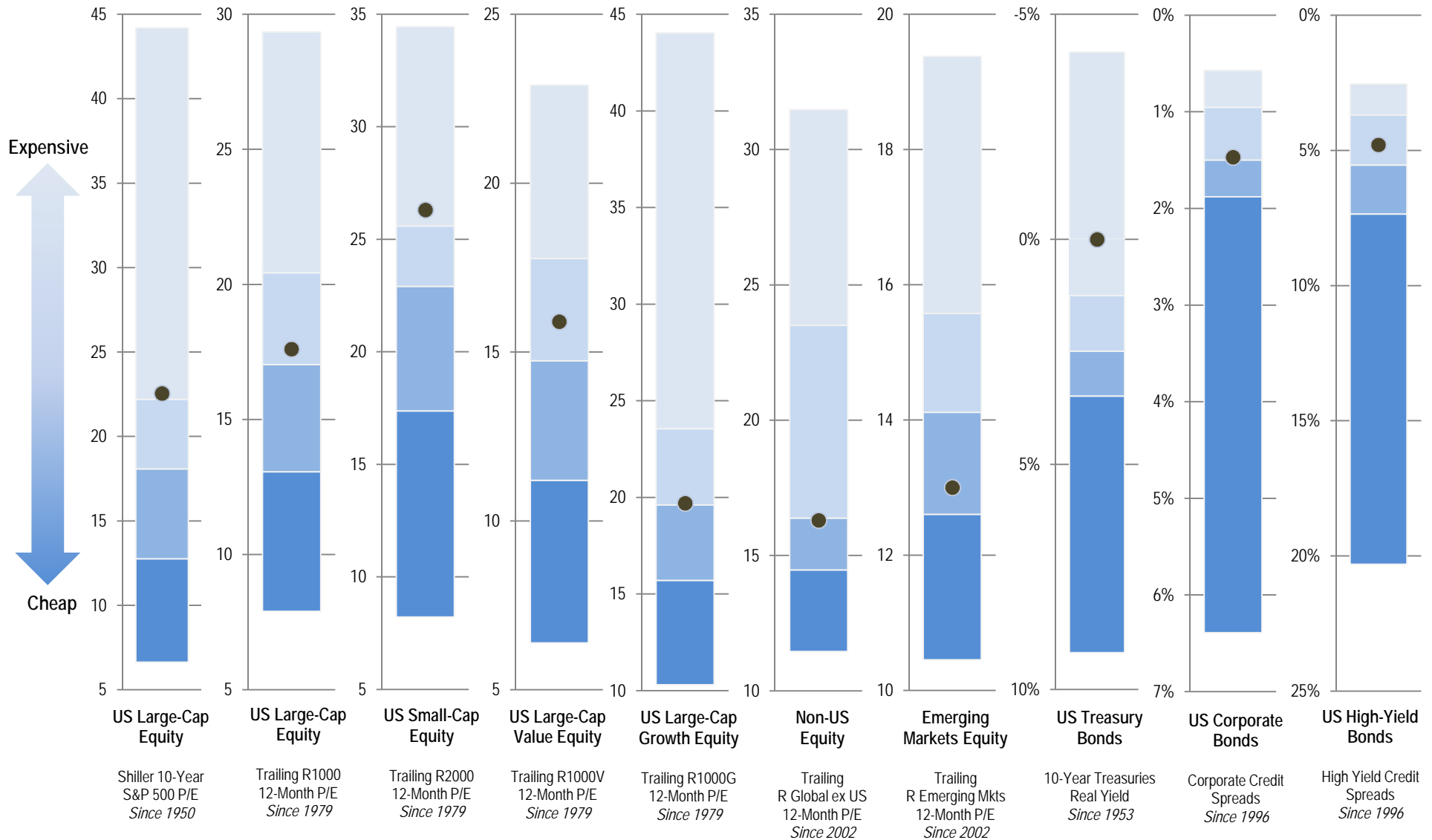
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	<u>3/2013</u>	<u>12/2012</u>	<u>3/2012</u>	<u>3/2010</u>	<u>3/2008</u>
Market Inflation Expectations					
5 Year	2.2	2.1	2.0	1.8	2.2
10 Year	2.5	2.5	2.3	2.2	2.3
20 Year	2.6	2.4	2.4	2.6	2.5
CPI Year-over-Year	---	1.8	2.6	2.3	4.0
Gold Spot Price	1602.5	1664.0	1660.8	1109.5	937.3
West Texas Crude Oil	94.6	91.8	103.0	83.5	101.5
VIX	13.0	17.3	16.2	17.8	27.1
Trade Wtd Dollar Index	76.2	73.1	72.8	75.7	70.6
US Unemployment Rate	7.6	7.8	8.2	9.9	5.1
Consumer Sentiment Index	78.6	72.9	76.2	73.6	69.5
US Corp Profits (% of GDP)	---	11%	11%	10%	8%
Real GDP Growth YoY	1.8	1.7	2.4	1.9	1.6
Federal Funds Rate	0.14	0.16	0.13	0.16	2.61
US Govt Debt (% of GDP)	---	104%	101%	90%	66%



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Trailing 12 month P/E metrics exclude the top and bottom 5% of the range.

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2004	2005	2006	2007	2008	2009	2010	2011	2012	YTD 2013	01/01/2004 - 3/31/2013	Legend
38%	34%	42%	39%	14%	79%	27%	22%	29%	12%	6%	MSCI All Country World
26%	21%	32%	16%	8%	58%	20%	15%	19%	11%	6%	S&P 500
20%	20%	26%	15%	5%	38%	19%	14%	18%	7%	7%	Russell 2000
18%	15%	21%	12%	4%	35%	17%	10%	17%	6%	6%	MSCI EAFE
15%	14%	18%	12%	2%	32%	15%	8%	16%	5%	12%	MSCI Emerging Markets
12%	11%	16%	11%	-2%	28%	15%	8%	16%	3%	5%	Barclays Multiverse
12%	11%	15%	10%	-11%	27%	15%	6%	16%	3%	5%	Barclays US Aggregate
11%	7%	12%	9%	-11%	26%	13%	4%	16%	2%	5%	Barclays US Treasury
11%	5%	10%	9%	-21%	19%	12%	2%	10%	0%	9%	BofA ML US High Yield II
9%	5%	10%	7%	-26%	11%	10%	0%	9%	0%	8%	Barclays Long US Gov/Credit
9%	5%	7%	7%	-34%	11%	8%	-4%	7%	0%	6%	Barclays US TIPS
9%	3%	5%	6%	-36%	8%	7%	-6%	5%	0%	10%	JP Morgan EMBI
8%	3%	4%	5%	-37%	6%	6%	-6%	5%	-1%	6%	NCREIF-ODCE AWA
7%	3%	3%	5%	-42%	2%	6%	-7%	4%	-2%	10%	FTSE NAREIT Developed
4%	3%	3%	2%	-43%	0%	6%	-12%	2%	-2%	3%	HFRI Funds of Funds
4%	2%	2%	-2%	-48%	-4%	6%	-13%	0%	-2%	2%	DJ-UBS Commodities Index
1%	-4%	0%	-7%	-53%	-30%	0%	-18%	-1%	-2%	2%	BofA ML 91-Day T-Bill

Returns for the period from 01/01/2004 - 3/31/2013 are annualized.