Prepared Comments from 4/15/2013 Conference Call

I found the last two sentences of my January 2013 comments to be quite interesting: "The bottom line for 2012 is that it was a WONDERFUL year, with gains of over 10% for most balanced investors. While I like much of what I see unfolding in the economy, don't expect 2013 to be a repeat for stock investors." Actually, the first quarter of 2013 has almost been a repeat of 2012. Not bad at all!

The US stock market is up about 6% since our January call. It is up 131% since its March 2009 panic low levels, it now matches its October 2007 highs.

The past three months brought the start of the dreaded sequester, and in addition the payroll tax increase has begun being felt.

Much economic news is released each month. Inflation has risen 0.6% in the past three months, a very tame rate. The Unemployment Rate, granted a questionable statistic, has fallen for three straight months and stands at 7.6%. New jobs were created each of the past 30 months, although the preliminary figures for March were very low (under 100,000). The Conference Board reports that their Leading Economic Index® has risen for each of the past three months, and is the highest it has been since the 2008 economic crisis. Consumer Confidence has been uneven this year and last, still in 'depressed territory.' The country's economy, as measured by the GDP, Gross Domestic Product, rose in the 4th quarter of 2012 (the last quarter with data available) by a scant 0.4%, however most analysts expect 2013 growth to be accelerating. Car sales are now at normal levels, and have a high amount of older cars on the roads which will need replacing, which will require above-normal car sales in the future. Similarly, real capital goods order levels are at normal levels, but will in time have to run above-normal to handle the anemic levels from 2008-2010. Housing starts are recovering, and will eventually require above-normal levels for quite awhile to accommodate four years of far subpar starts. Taken together, these are pretty solid economic data, supporting the view that our economy continues to recover from the 2008-2009 crisis.

Europe's own crisis opened a new front recently, with Cyprus banks temporarily shutting down, and announcing a 'haircut' for depositors. Their problems are far different from those in the US, and from most of Europe, however they are quite similar to problems Iceland faced in the past five years. The general European economic crisis continues, but continues to be viewed as under control at this time, due to substantial steps by the central bank authorities. My favorite market analyst, Dr. David Kelly of JP Morgan notes that Europe is no longer in a fiscal crisis—it is now in an economic crisis, as it cannot get its countries' economies to grow, and the governments lack the fiscal strength and willingness to artificially provide sufficient economic stimulus.

The US stock markets rose 10% or more during the quarter, while foreign stocks rose, but much less. Bonds barely broke even during the quarter, evidence of a shift in investors' appetites from overpriced and under-yielding bonds.

The S&P 500 index, representing much of the US stock market, rose 10.6% during the quarter. These companies' earnings, however, fell over those three months. Nonetheless, US stocks continue to appear to be attractively priced. They are priced 85-95% as expensively than their 20-year average. Given how unattractive their alternatives are (primarily cash and bonds), this makes a strong case for maintaining, or even expanding stock allocations at this time.

Housing is indeed improving, with inventories down to normal levels, and prices rising almost straight for more than the past year. Mortgage interest rates remain at historic lows, and household debt service levels are similarly setting record lows.

Economically I expect autos and housing to lead the US economy upward from here.

Investment-wise, I expect investors to slowly shift dollars that have been holed up in cash and bonds to purchase stocks, and provide the cash flow to continue to support rising stock market levels.

That said, there are always risks, both those you can foresee and those you cannot. Rather than attempt the impossible and sidestep the risks, I continue and will always promote steady adherence to a firm investment program. We regularly rebalance our clients' portfolios, taking some gains in rising markets, such as we are witnessing now, and setting them aside. This provides ammunition for buying into the next stock market drop. Disciplined rebalancing is not a cure for market volatility. Rather, disciplined rebalancing takes advantage of today's market volatility.

The past quarter brought strong stock returns, and is backed by strong economic developments. We don't know what the future will bring, however there are many 'green shoots,' signs of continued economic recovery. We therefore are sticking with our long-term approach of stubborn commitment to our overall stock allocation targets for client portfolios. We feel that this is similarly the best approach for individual investors.

Sunny days make way for rainy days, and vice versa. Investment programs do best when they work in both good and bad times. We had a good quarter, and this quarter is starting well. That said, bad times will certainly crop up. Rebalancing now will prepare you well for the next rainy day. That said, let's enjoy the past quarter's results.