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Dow Jones Industrial Avg.	**13,212.04**	**Standard and Poor's 500**	**1,408.47**
2012(YTD) +8.1%	1st Qtr. +8.1%	2012(YTD) 12.0%	1st Qtr. +12.0%

"Let us have the courage to stop borrowing to meet the continuing deficits. Stop the deficits." Franklin D. Roosevelt (1932)"

Overview- Under the Big Top - Brace yourself, the circus is coming to town. No, it is not the one with live, exotic animals, trapeze artists and clowns. It's the Republican and Democrat Presidential conventions followed by the bruising political campaign leading up to the decisive vote in November. This contest will take place under the Big Top, and we will be subjected to an agonizingly long spectacle, in which Democrats and Republicans will use every means imaginable to convince voters their candidate is better. I can even imagine one of them resorting to free cotton candy!

The focal point for most voters, but particularly investors, will be the progress of the economy in the months leading up to the election. Political pundits are already predicting a close contest between President Obama and his opponent, former Governor Mitt Romney. Given the tightness of the race, it is easy to imagine both camps resorting to nasty, distasteful ads in an attempt to drive up their opponent's negatives. Since independent voters will determine the outcome, they will possess the collective power to sway both party platforms

Unless there is sudden improvement in the pace of the economic recovery, the President will be hard pressed to convince independent voters his economic policies have generated enough growth to justify his re-election. The lack of employment growth and three years of stubbornly high federal deficits appear to be his Achilles heels. Without better economic news, the President and his advisors will attempt to direct voters' attention to more favorable topics. Governor Romney, on the other hand, has the advantage of pointing out why he believes the Obama administration has not succeeded in generating a more powerful recovery. Although there are a number of the President's missteps for Romney to highlight, a better approach would be to enumerate the changes he recommends to re-energize the economy and stimulate more growth. Many voters on both sides of the political spectrum are tired of the sniping and brawling. The party that is able to successfully communicate a constructive plan and a positive vision will win.

In light of the sluggish economy, the biggest challenge for both parties will be addressing the glaring need to reduce the annual budget deficit. Democrats expect the President to maintain spending, if not increase it. They also expect to have a tax increase imposed on "the rich". Conversely, Republicans expect lower spending and program cuts with little or no increase in taxes. They have even dared to whisper "entitlement reform". This political repartee is reminiscent of the old Miller brewing ads promising "More taste; less filling."

Returning to the circus metaphor, although the main tent will draw the largest crowds there will be plenty of excitement among the side shows too. Topping the list will be the drama in Europe. Will Greece avoid default and find a way to satisfy Germany and France and will it be able to live within its means? A long shot. Will Spain and Italy avoid a similar fate? Another attraction is, "Can western nations tame the wild ones – Iran and North Korea or will the nuclear threat escalate?" Then there is China - the "Beast of the East". China has earned the title as king of the jungle over the past few years, yet it has experienced decelerating growth this year. Therefore it raises the question, "How will this impact growth elsewhere in the world, particularly among countries it has relied upon for raw materials and other commodities?" The best of the rest is our own monetary magician, Federal Reserve Chairman, Ben Bernanke. His spectacular act involves aggressively acquiring vast amounts of federal and federal agency debt with freshly printed currency. The more learned crowd has dubbed this practice Quantitative Easing (i.e., Q.E.) and the Chairman has already dazzled us with Q.E. I, Q.E. II, and some expect Q.E. III to be unleashed at any time. He will be more renowned than Houdini if he can successfully unwind this maneuver without inflicting great harm on the financial markets. Make sure you have your ticket for that performance. Spectators will experience the same thrill watching these events unfold as they would have had watching the original "Greatest Show on Earth".

Any investor who feels confident in the future after watching the events of this circus either possess nerves of steel or a conviction there is a safe way out of this maze. In the current world of investments, distortions abound. It is like wandering through the hall of mirrors in the fun house. What appears to be fat is really thin; what appears tall is short; and what appears to be safe is risky. J. P. Morgan Chase just proved that with its latest quarterly report, which proved to be an unmitigated disaster. Games require rules. Playing fields need boundaries. Officials are necessary to control the game. Financial markets have devolved into a game of anything goes. Once Glass-Stegall was scraped, the Big Boys (i.e., Big banks, Big Wall Street firms, and Big hedge funds) took control of the playing field. They made their own rules, and those rules are designed to achieve one goal – maximum profits.

What does this all mean for the smaller, more traditional investor? Us. It means paying more attention to risk. Who would have ever imagined the United States, formerly the gold standard of sovereign credits, could lose its AAA credit rating? How could J.P. Morgan Chase, the pre-eminent bank in this country, manage to lose more than $2 billion dollars in one quarter in the derivatives market? Was nothing learned from the last banking crisis? Is it possible a new, unseasoned company named Facebook will have a value of nearly $100 billion after its initial public offering, which equates to 25-30 times revenues, not earnings? When investors assume risk, they do so in anticipation of earning a reward. In each of these three instances the risk/reward trade-off is not particularly attractive.

Given the fiscal state of affairs in Washington, there is a legitimate question whether this country can even retain its newly lowered credit rating of AA1. Despite the lower rating, the Treasury is able to borrow funds for two years at less than 0.32%; ten years at 1.85% and 30 years at 3%. It is hard to justify such low returns in light of our $15 trillion nation debt and $1.3 trillion annual deficit. J.P. Morgan Chase finished yesterday at $40.74 with a dividend yield of 3.17%. Today it is selling for three dollars less, a decline of roughly 7.5%. Saving the best for last, Facebook is the newest hottest stock, and it is being price accordingly by the Wall Street wizards. I'll pass.

There is as much reason to be concerned about owning fixed income investments as owning stocks. Today's bond pricing has little to do with either credit evaluations or even the traditional yield curve. Such yardsticks have been marginalized by the heavy-handed intervention of FED Chairman Bernanke. Credit spreads are incredibly narrow due primarily to Bernanke's efforts to keep interest rates so low. Risk throughout the credit spectrum is being under priced. Vigilance is required by anyone who owns long-term or even medium term debt securities. This equally pertains to bond funds.

Stocks did so well during the past two quarters (4Q, 2011 and 1Q, 2012) that caution is warranted here as well. The improved prices have fortunately been supported by another good quarter of corporate earnings. Nevertheless, the slowing economy has led analysts to begin to trim their growth expectations for the balance of the year, so a degree of caution is in order. On the positive side of the ledger, corporations have shared their success with shareholders by providing healthy dividend increases. We do not believe there are many compelling stock values now.

Other News – We decided after 19 years to experiment with a new look. Let us know what you think of our new logo and stationery. Carie has also been spearheading an effort to launch our website. You can expect to be seeing the results very soon. As you venture around Cape Cod, be sure to stop by for a visit when you are in the vicinity of Osterville. Have a great summer! JML -