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Dow Jones Industrial Avg.	**14,578.54**	**Standard and Poor's 500**	**1569.19**
2013(YTD) +11.25%	1st Qtr. % +11.25	2013(YTD) +10.0%	1st Qtr. +10.0%

Keep a Clear Head – "The stock market is filled with individuals who know the price of everything, but the value of nothing." Philip Fisher, world-renowned value investor and author of the highly regarded book, "Common Stocks and Uncommon Profits"

Impressive Start – It is always encouraging when a journey starts on a positive note. In spite of a number of concerns, the stock market has started the year with an impressive shot out of the gate. There have not been any new, startling developments to account for this surge rather it is a continuation of the Bernanke rally, which is propelled by easy money and low interest rates. What has frustrated politicians as well as economists and business owners is Bernanke's policies have yet to stimulate the economy enough to keep the unemployment rate much below 8% or to generate sustainable growth of more than 3%. In short, we do not have a three legged stool or even a two legged stool, the economy and the financial markets are completely reliant on a one-legged stool-- the determination and the persistence of the FED.

Corporate America has continued to generate positive earnings results even if they aided themselves by lowering the bar in many cases. What is worrisome, however, is the diminishing revenue growth. The economic outlook is clouded by the gradual decline in consumer confidence. Sectors expected to continue to support growth are housing and autos. It is a bit disconcerting to see the sudden surge in housing prices in metropolitan areas that had been decimated. They include Phoenix, Miami, and select communities in California. The concern is the crushing losses suffered in many of these communities over the past five years have already been forgotten. If that is the case, the FED's easy money stance might already be inflating the next real estate bubble.

Will Recovery Continue? - One of the primary reasons so many investors have remained skeptical of this rally is the tepid economic recovery. In spite of the fact the recovery is now more than four years duration, the FED remains committed to its low interest rate policy. The economic benefits have accrued to borrowers in general and the housing industry in particular. On the flip side, fiscal policy has become more restrictive as the cost provisions of Obamacare begin to take effect; the impacts of Sequestration begin to spread; and the increased taxes on upper income taxpayers reduces their disposable income. Psychologically, the stock market would likely be propelled higher if the President and Congress found middle ground and were able to shape a grand bargain on either the topic of tax reform or entitlement reform. There are two sizable obstacles to such a détente: the first is the extremists of both parties are determined not to agree on anything, and second, both parties fear their opponents will garner too much of the credit. Odds are gridlock prevails. That is the way of Washington. President Obama should consider mounting an all-out effort to press Congress to mold a compromise, otherwise he can expect to see meaningful opportunities to add to his legacy dwindle as the clock gradually winds down on his second term.

Unrest Overseas Widespread - Syria is the current poster child for violent unrest in the Arab-Muslim world. President Assad is methodically working to destroy factions opposed to his regime with unfettered brutality. Israel has felt compelled to flex its military muscle on several fronts. In Afghanistan, the

Taliban appears poised to reassert control soon. North Korea flaunts its nuclear capability and rocketry with alacrity. In the economic realm, the European Union struggles to support its weaker members, yet their lack of success brings to mind images of Sisyphus. Equally disturbing is the demonstrable drain upon the two largest members, Germany and France. Equally troubling are the stresses and strains that have surfaced in the Chinese economy. Growth has been ebbing for the past few years, which is compounded by an apparent real estate bubble – and we know how devastating one of those can be. When the sluggish U.S. economic performance is combined with these other worrisome trouble spots, it gives one reason to question whether the recent rally can be sustained. Nevertheless, during periods such as this it is hard to ignore the old Wall Street saw of "Don't fight the tape."

Where to Turn? - Investors continue to be bedeviled by the near futile search for income. The challenge is even greater for those unaccustomed to risk. Not so many years ago, conservative savers and retirees were able to earn reasonable returns with bank certificates of deposit. U.S. Treasury bills and notes, federal agency notes, and short-term municipal obligations were other safe options that provided satisfactory income. It is not too difficult to remember when these choices yielded four or five percent, and many can remember when they yielded eight to ten percent. No more. Now any attempt to match those returns requires placing the funds at risk. This is a leap many retirees are unwilling to take because they know they may never have the opportunity to recoup any losses. Their dilemma is intensified by the rally in stock prices, which began late last year. The predicament boils down to buy stock or some other risky investment or cut spending and adopt a lower standard of living.

Over the past six months, stocks in certain industries have been a good choice for investors seeking income. What has made them even more attractive is they are found in industries regarded as "defensive holdings". These have included food, energy, and utility companies. It is suggested investors take advantage of this recent rally and consider realizing some profits by eliminating disappointing performers or minor positions. It is an opportunity to do a little spring cleaning in your portfolio.

Declining interest rates have continued to tighten the vise. Ten year Treasury notes yield only 1.75% and good quality corporate debt of like maturity provides returns of a scant 2-3%. Short-term bank CDs are unlikely to provide a return of greater than one percent and money market funds, which had been a reliable substitute, yield virtually nothing. No fixed income investment with a maturity of longer than two or three years should be bought with the thought it can held without risking principal. There are tactical positions that have been instituted in select accounts, but they involve securities requiring close attention. Municipal bond funds are the only option in the "acceptable risk" category for longer maturities. However they do require close attention. For the right investor, preferred stocks or floating rate bonds offer specific benefits. There are no segments of the fixed income market, which warrant a hearty endorsement. The default position is very short (i.e., 0-3 years), high quality, laddered maturities designed to provide safety and liquidity with a modest income stream.

Spring Arrives! – The stock market has been on a tear since the beginning of the year. Consistent with the arrival of spring, the animal spirits have asserted themselves and they have sparked the second leg of the recovery. It leaves one to wonder how long the momentum will last and how high will it carry the stock market. Now that we have all dispensed with the unpleasant task of filing our taxes, we need to start bracing ourselves for the same exercise for this current year. To help you better understand the ground rules, we have discovered a handy reference guide entitled, "Facts You Need to Know about Taxes". Each of our clients is being sent one, and extra copies will be provided upon request. If you have any friends or acquaintances, who might be interested in our services, we are willing to provide them a copy along with an introductory packet. Enjoy your spring and brace yourself for a hectic summer. JML