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Quarterly Performance Recap – The economy continues to slowly recover with the Federal Reserve keeping the monetary spigot wide open to stimulate employment and growth. The housing recovery is firmly entrenched with inventory low and prices moving higher since bottoming early last year. Benefitting from global capital flows and low interest rates, U.S. stocks rocketed higher with the best first quarter performance in years. Does the strong 1st quarter for stocks increase the likelihood of a market selloff? We have analyzed data going back to 1950 and discovered that when the S&P 500 posted a gain of 5% or more during the 1st quarter, the market finished the year with further gains 86% of the time. The average gain for the remainder of the year was 9.1%. There are always reasons to be wary, but these historical facts are encouraging for those with an allocation to equities.

Our big winners over the past three months with double digit gains were **AT&T**, **Berkshire Hathaway**, **Chevron**, **DuPont**, **Eli Lilly**, **IBM**, **Sempra**, and the **SPDR S&P Dividend ETF**. The weakest holdings last quarter were the **gold ETF's** and **Apple, Inc.** It's not surprising that gold was down with the stock market at a record high. We hold gold as a shock absorber and defensive position to hedge geopolitical risk and profligate money printing policies by central banks. Apple is facing increased competition, but carries a Fort Knox balance sheet with no debt and $145/share in cash with which to boost dividends and buy back company stock. The smartphone market is expected to double by 2014.

Fixed-income standouts last quarter included a **Goldman Sachs floating-rate preferred**, along with the **Loomis Sayles Bond Fund**. Dan Fuss is the lead manager at Loomis and has a proven track record for exploiting mispriced areas of the bond market. This multi-sector standout has a large position in Canadian government bonds along with high yield U.S. corporates, and emerging market debt. The fund is positioned defensively against higher interest rates down the road with a 4.7 year duration and 4.6% current yield.

Our objective is to preserve and build our clients' wealth and minimize large draw downs. We own best of breed securities spread across different industries and asset classes. Your individual performance is a reflection of your risk tolerance, asset allocation, and start date. Overall, our balanced approach produced a net 3-month total return of 3.0% across all client accounts. Clients with a higher equity allocation posted higher returns versus those with more of a conservative tilt.

Bonds & Bond Fund Risk Awareness – Bonds are safe and pay regular income, right? Generally speaking yes, but problems can occur, so here are some risks to keep in mind: 1) **Credit risk** - the risk of default where interest and principal payments become impaired. Know the strength of the issuer and source of repayment. 2) **Interest rate risk** - the decline in the price of a bond due to an increase in market interest rates. Holding until maturity solves this problem with an individual bond, but remember bond funds do not mature and carry price risk. Keeping duration moderate and settling for a lower interest rate today will save a lot of pain a few years from now when rates move higher. 3) **Call risk -** the risk of early redemption prior to maturity. Returned principal must be reinvested at lower rates today. 4) For bond funds & ETF's, the risk of a **dividend cut** is real as older bonds mature and the proceeds are reinvested at current rates, so remember that current yields aren't carved in stone with funds. 5) **Leverage risk –** Borrowing employed by closed-end bond funds to inflate the distributed yield. This can work when short-term rates are steady, but higher yield means higher risk to principal, so buyer beware. 6) **Market price risk –** Prices will fluctuate prior to maturity due to a myriad of factors. The key is to do your homework and manage these risks. We own laddered maturities of individual bonds which come with the certainty of a fixed-interest coupon and set maturity dates, along with a few carefully selected bond funds where the managers excel at minimizing these risks.

Dow Dog – This refers to a stock in the Dow Jones Industrial Average that has experienced a price decline which results in a high dividend yield. The highest yielding stock in the Dow is currently **Intel Corp**, with a yield of 4.1%. The CEO is retiring in May and the company has been hurt with their PC focus and lack of mobile chips for smartphones and tablets. All the bad news is reflected in the price, and the stock is a bargain selling at 2x sales with a P/E of 11, low debt, and a 24% return on equity.

Tax-Qualified Retirement Savings Plans – Most of us started with a $2,000 deductible IRA contribution many years ago. For those still generating earned income, the annual contribution limit has been raised $500 for 2013 to $5,500 for regular or Roth IRAs. For those born in 1963 or earlier, an additional $1,000 contribution is available. Deductible IRA and Roth IRA contributions are phased out for higher income earners when they also participate in an employer sponsored plan. There is no tax deduction for a Roth IRA contribution, but the future growth and distributions are tax-free. Attaining age 59 ½ and a five year period is required for tax-free treatment of withdrawals of account earnings from Roth IRAs. For 2013, you are eligible to make a full Roth IRA contribution if your adjusted gross income is below $178,000 for married filing jointly, or $112,000 for single filers.

The income restrictions have been removed for Roth IRA conversions. So if you expect higher tax rates down the road and you have money outside your IRA to pay the tax now, a Roth conversion for some of your IRA may make sense. This strategy makes the most sense for those that do not plan on drawing from their IRA, and have at least ten years to let the account grow. Required minimum distributions beginning at age 70 ½ do not apply to Roth IRA's. We specialize in all types of tax favored retirement plans and IRA rollovers, so feel free to give us a call to discuss your options.

Estate Planning - Have you reviewed your will, trust, and beneficiary designations lately? We suggest a five year review interval, or whenever a significant family event occurs. If you have a living trust, please confirm that the title of your real estate and brokerage accounts has been changed to reflect the name of the trust. Retirement plans, life insurance, and annuities with a designated beneficiary other than your estate automatically avoid probate, so no need to change title on those accounts. You will also want to check your Durable Power of Attorney documents for health care and property.

For 2013, the annual gift tax exclusion has been increased to $14,000 per donee, so a married couple can gift up to $28,000 with no tax impact for the donor or recipient. $5,250,000 is the 2013 individual exclusion amount for federal estate tax.

If you have any questions or comments regarding your portfolio, please let us know. Thank you for your continued trust and confidence, we are working hard to earn it.