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Economic & Market Summary
April 2013

U.S. economic data continue to be positive despite a reduction in fiscal stimulus. Personal consumption through January rose 3.2% over last year, even in the face of higher taxes. Retail sales (+0.2% in January and +1.1% in February) and private sector job growth (+140,000 in January and +246,000 in February) portend personal consumption growth in 2013. Residential investment continues to shine with February housing starts of 917,000, an increase of 27% over last year. Conditions continue to support additional growth. Business investment rebounded strongly in Q4, despite uncertainty ahead of fiscal cliff negotiations. This is proof positive that the private economy works well on its own. With ample access to capital, strong balance sheets, and high capacity utilization rates, business investment should contribute to economic growth in 2013. Inventory liquidation and slower growth in government spending have been a drag on GDP growth in recent quarters. Anecdotal evidence suggests inventories are lean, so this element of GDP could turn positive. Though government spending growth will likely continue to moderate and act as a drag in the near-term, historical evidence suggests this will actually encourage stronger future economic growth. In aggregate, we anticipate 2% real GDP growth in 2013.

Monetary policy remains unusually accommodative as both employment and inflation are below Federal Reserve targets. In Fed statements, commentary has become slightly more positive which we view as consistent with recent economic data. Core inflation was 2% as of February. The Fed continues to buy long-term Treasuries and mortgage-backed securities, attempting to force yields lower. We remain bearish on bonds, especially longer duration securities, which presume historically low inflation rates over the next 10 years and beyond.

A significant fiscal hurdle was cleared with the passing of permanent U.S. individual tax rates. Although higher taxes will reduce economic growth, the law creates certainty allowing businesses and individuals to make informed plans for the future. Europe's continuing economic problems will remain a drag on global growth, causing occasional bouts of market volatility. Implementation of the Affordable Care Act (ACA) presents a risk to the U.S. economy. Even the most sophisticated U.S. employers are still evaluating the effect on their benefit programs and the potential for significantly higher premiums in 2014. Political backlash could force changes if employers eliminate health insurance coverage en masse, effectively overloading the system. Ultimately, higher premiums would negatively affect personal consumption in 2014. We will closely monitor these developments.

After six years of net outflows from domestic equity mutual and exchange-traded funds, flows have turned positive in 2013 driving strong equity performance in Q1. The S&P 500 produced a 10.6% total return in Q1 primarily on an expanding P/E multiple. The S&P currently trades at, a still reasonable, 14x estimated 2013 earnings. Given low interest rates, we are cognizant of the fact that certain dividend stocks are receiving premium valuation in the market as investors seeking income substitute equities for bonds. Over the long-term, income *growth* is paramount to today's yield driving us to analyze the dividend growth characteristics of the companies we own. We believe our research process of identifying consistent growth companies trading at a discount to intrinsic value will continue to deliver attractive investment returns.

Thomas H. Rippl, CFA

To request our SEC Form ADV Part II, please contact Michael L. Wise, Chief Compliance Officer, at the address above.