DANN ASSET ADVISORS, LLC

Fourth Quarter 2013 Update

January 24, 2014

4Q13 Highlights

- U.S. growth improves in the third quarter, fourth quarter expected to be weaker
- Congress functions – delivering a two year budget agreement
- Developed markets end a very strong year with a good fourth quarter
- U.S. stock and bond markets appear comfortable with Fed's tapering of bond purchases

Markets

The table below summarizes the performance of some key indices during the fourth quarter and for the full year:

Market Performance		
Index	% Ch. 4Q13	% Ch. 2013
S&P 500	10.5	32.4
MSCI Developed Markets (excl N Am)	5.7	23.5
MSCI Emerging Markets	1.8	-2.6
MSCI All Country World	7.3	22.8
US Aggregate Bond (1)	-0.1	-2.0
Liquid High Yield (1)	3.4	5.9
US Dollar Emerging Markets Bond (1)	1.3	-6.5

(1) Barclays indices

Equities. The U.S. market (as measured by the large cap S&P 500 index) returned 10.5% for the quarter, bringing the full year gain to 32.4% – the best year since 1997. Factors that likely contributed to the strong fourth quarter were the end of the federal government shutdown, the recent two-year budget agreement and Federal Reserve statements. In addition, with the exception of December's employment report, U.S. economic numbers generally have been strengthening. We believe the Fed's strong, clear commitment to keeping short-term interest rates low was a large contributing factor to full-year 2013 returns; however, disaggregating this impact from what we perceive as a strengthening economy is difficult. At the end of 2013 the S&P 500 was trading at 17.0x trailing 12 months' earnings and 15.5x projected 2014 earnings.

As throughout 2013, international markets trailed in the fourth quarter with emerging markets continuing to lag significantly. Non-U.S. developed markets were led by easy money in Japan and economic stabilization in European Union countries as a whole. Emerging markets were hurt by weaker than expected economies in several significant countries (Brazil, for example) and a strengthening U.S. dollar. While the U.S. clearly was the place to be for 2013, we continue to believe that exposure to international markets makes sense for the long term. According to index provider MSCI, at December 31 developed markets excluding North America and emerging markets were trading at 14.2x and 10.1x 2014 anticipated earnings – a significant discount to the U.S. in the case of emerging markets.

Fixed Income. Yields on longer term U.S. bonds (as measured by the 10 year Treasury) gradually rose during the fourth quarter and ended the year around 3% – a level touched briefly in September and last seen in 2011. The rise in longer term yields most likely stemmed from the beginning of Fed tapering of bond purchases and the modestly improving economy. Consistent

with stocks and as shown in the table above, emerging markets sovereign debt had a tougher year than U.S. debt securities. The high yield index represented in the table – despite an intermediate term duration – generated good returns relative to other fixed income as U.S. credit conditions remained favorable. The negative 2.0% return of the Barclays U.S. Aggregate Bond index represented its worst showing since 1994.

Portfolio Positioning

The fixed income component of most diversified (fixed income and equities) portfolios remains conservatively positioned with more than 80% in domestic investment grade securities with durations under three years – the substantial majority of this being in corporate and municipal securities. We continue to believe that the likelihood of reduced bond purchases by the Fed combined with improvement in the economy and employment will put upward pressure on longer term interest rates. In our opinion, current higher rates on longer dated fixed income don't adequately compensate for the risk of principal declines if rates rise as we expect.

As stated in our third quarter update, we expect the rise in rates to be gradual from current levels and that the Fed will try extremely hard not to surprise the markets with any significant changes in policy. Our perception is that the Fed was surprised by the substantial move up in longer term rates last summer in response to the first mention of tapering, and we believe they strongly want to prevent that situation from recurring.

With respect to equities, the best performing broad U.S. market sectors during the fourth quarter were industrials, technology and materials. Each of these sectors depends on positive worldwide economic growth (many of the large companies in these sectors have substantial international operations) to generate good earnings. As a sign of the potential for improving growth, industrial production and manufacturing numbers across many of the world's larger economies were strong in the fourth quarter.

In contrast, the three worst performing fourth-quarter sectors were real estate investment trusts, utilities and telecommunications companies. Each of these sectors are owned at least in part because of their dividend yields and often come under pressure when interest rates rise; accordingly, their relative weakness in response to the Fed's decision to taper and higher interest rates is no surprise.

Despite the good fourth quarter for the U.S. market, we found it difficult to find undervalued securities and for most equity-only clients purchased only one new position, a semiconductor company. Beyond individual stocks, the sector that we've found most attractive recently is technology, where we added to the exchange traded fund (ETF) already owned by many clients. At a below market multiple, we believe technology remains attractively valued and like the fact that the top companies in the ETF often generate more than half their revenues outside the U.S. and thus likely will benefit from continued improvement in both developed and developing economies. The same rationale underpinned our investment for most accounts in an industrials ETF in the third quarter.

Sales during the fourth quarter for most equity-only accounts included an upscale consumer goods company and an emerging markets ETF. Despite being attractive based on valuation, we sold the emerging markets ETF because we believe those markets may continue to have a tough time as the Fed pares back asset purchases. We ended the quarter with 10%-12% in cash in most equity-only accounts.

2014 Stock Market Outlook. We don't believe in anyone's ability (including our own) to consistently predict the stock market. Where our view has changed from 2013 is that we're now convinced that the Fed will do everything in its power to prevent stocks from declining significantly until unemployment is substantially lower and the U.S. economy is on a stronger, more consistent growth path.

Despite our belief that Fed policies will help support the market in 2014, the last 15 months have represented a long period of uninterrupted appreciation and we believe volatility will become more significant in 2014. We can think of a number of events that could spark renewed volatility – we just don't know when or what specific event will cause this to occur. Within this context, and respecting the tremendous run the market has had since the 2009 lows, we're likely to continue our current focus on generally high-quality companies with strong financial positions that can weather and take advantage of unforeseen opportunities.

Economy

The U.S. economy grew at a much stronger than expected 4.1% pace in the third quarter. This followed somewhat anemic growth of 2.5% and 1.1% in the second and first quarters, respectively. Given that roughly 40% of third quarter growth was due to inventory accumulation, analysts expect fourth quarter 2013 GDP to show a more modest gain of 2.5%-3.0%. GDP estimates for 2014 generally also are in the 2.5%-3.0% range, with a bias toward the upper end.

At its December 2013 meeting, the Fed announced that beginning in January 2014 it would reduce its monthly bond purchases by $10 billion, to $75 billion. In contrast to the negative reaction last summer to potential tapering, in December the market reacted positively to the Fed statement, likely at least in part because the Fed also strongly committed to keeping short term interest rates low even if/as the unemployment rate falls significantly below its prior 6.5% target.

Housing and autos continue to be the strongest sectors in the U.S. economy. Although 30 year mortgage rates have increased roughly 100 basis from early 2013, rates remain low by historical standards. Accordingly, we expect housing to remain healthy in 2014 and judge the Fed would continue with mortgage security purchases if mortgage rates were to increase significantly from here. Auto demand also currently remains strong; however, increased discounting may be contributing to recent sales strength and, coupling this factor with a very promotional 2013 holiday season, may mean that consumer spending is not quite as healthy as it seems. Still, combining Fed policies with our assessment of current economic conditions leads us to believe, like the consensus, that the U.S. economy will be stronger in 2014.

With respect to other economies, Europe continues to show stabilization and 2014 is likely to be better than 2013 (incrementally helpful for the U.S.). Chinese economic numbers have been erratic recently, at times showing signs of good growth and at others seeming to slow down. We believe Chinese growth in 2014 will be down modestly from 2013 levels as the government tries to reduce vulnerabilities from aggressive lending. Japan's government appears strongly committed to improving its country's growth. On a net basis, we expect growth around the world to be stronger in 2014.

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