DANN ASSET ADVISORS, LLC

First Quarter 2013 Update

April 17, 2013

1Q13 Highlights

- Despite recent tax increases, U.S. GDP growth likely accelerated from a weak 4Q12
- Federal Reserve confirms commitment to keeping interest rates low
- Eurozone economies remain weak; Cyprus a reminder of continuing vulnerabilities
- U.S. stock market has another very strong first quarter

Markets

The table below summarizes the performance of some key indices during the first quarter of 2013:

Market Performance		
Index	% Ch. 1Q13	% Ch. Last 4 Quarters
S&P 500	10.6	14.0
MSCI Developed Markets (excl N Am)	5.2	11.3
MSCI Emerging Markets	-1.8	1.7
MSCI All Country World	6.1	10.1
US Aggregate Bond (1)	-0.1	3.8
Liquid High Yield (1)	2.1	11.5
US Dollar Emerging Markets Bond (1)	-2.8	10.4

(1) Barclays indices

Equities. With a return of 10.6% for the quarter, the U.S. market (as measured by the large cap S&P 500 index) closed at an all-time high on March 31, eclipsing the prior peak reached in October 2007. The first quarter's gain was the second strongest in the past 15 years, surpassed only by last year's 12.6% return. While history may not repeat, it's worth noting that after strong starts in each of the last three years the market dropped anywhere from 9%-18% in the following three to six months. Unlike prior years' early gains that were led by cyclical sectors, this year's leading sectors were healthcare, consumer staples and utilities – generally among the more defensive segments of the market.

Likely reflecting weaker growth prospects, broad international stock indices lagged the U.S. Developed markets excluding the U.S. were helped by relatively strong returns in Japan (up roughly 18% in Yen) and Australia, with most European markets weak. The U.S. and Japanese central banks issued the most accommodative comments among developed economies in the first quarter, and these two countries also had the best performing market gains. The most heavily represented stock markets in emerging economies generally were flat to down in the quarter, the result, we believe, of weaker commodity prices and pressures on exports.

Fixed income. At least in part due to the prospect of stronger growth, the U.S. Aggregate Bond index (high quality corporate and U.S. government intermediate term debt) had its first negative quarterly return since the fourth quarter of 2010. High yield markets continued to hold up as credit conditions remain favorable and investors continue to look for yield, but dollar denominated emerging markets sovereign debt – a sector with mid teens returns in 2012 – declined. We believe the negative return for this sector (as measured by the Barclay's index in the table) stemmed from its intermediate term duration and negative economic developments in some of the heavier weighted countries in the index.

Portfolio Positioning

We continue to position the majority of the fixed income component of diversified (fixed income and equities) portfolios with investment grade securities having durations under three years. As with many investors, we continue to be concerned about the potential for higher interest rates and the negative impact that can have on principal values. As a result, during the quarter for many clients we lightened up on an actively managed GNMA fund whose duration had extended to longer than four years. We also sold the remainder of an exchange traded fund (ETF) that held U.S. dollar denominated sovereign debt with roughly a seven year duration.

Given the Fed's and other central bank's easy money policies, we believe that credit conditions remain favorable and are looking at several short duration (one-to-three years) fixed income funds that hold a combination of investment and non-investment grade securities. We judge that these types of funds – owned in moderate amounts – may be a good way to pick up some yield, especially if interest rates remain low.

With respect to equities, the best performing broad market sectors during the first quarter were healthcare, consumer staples and utilities – sectors generally considered to be more stable and defensive. In our opinion, the leadership of these groups stems from two factors. First, given Fed policies keeping interest rates low, we believe some investors have moved into higher yielding stocks (as represented by these sectors) in an effort to generate income that is hard to come by in conservative fixed income investments. And second, while the U.S. economy seems to be strengthening (at least temporarily), growth across the rest of the world is under pressure and leading to poorer relative performance among raw materials and other economically sensitive stocks.

As a result of the foregoing, we believe perceived "defensive" stocks are relatively fully valued at this time. However, across most portfolios we continue to maintain a good-sized position in a consumer staples ETF, believing the more stable businesses included in the ETF are likely to hold up better in a market correction. And, for the long term, we continue to like the usually consistent demand associated with many of these businesses.

Generally speaking though, at this time we're finding what we judge to be better long-term values in economically sensitive stocks. During the quarter, across many of our accounts we initiated positions in a performance materials company, a third-party logistics provider, and two businesses that develop, manufacture and sell consumer products.

In addition to the above securities, we added a non-U.S. developed markets small cap dividend focused ETF to many accounts. We believe that small cap international ETFs give more direct exposure to local economies than the larger cap international ETFs whose top positions often are more sensitive to worldwide economic conditions/trade than to the growing purchasing power of local populations. We judge that the focus of this ETF on dividend-paying stocks may help reduce some of the volatility often associated with international investing.

Economy

The U.S. economy continues its muted roller coaster ride around a trend line of modest growth.

After having expanded 3.1% in the third quarter of 2012, growth decelerated to 0.4% (second estimate from the government) in the fourth quarter. However, economists are looking for reacceleration to 2%-3% in the current quarter, with many estimates having moved to the top end of the range as the quarter progressed.

Two wild cards for 2013 are the impact of tax increases that occurred at the beginning of the year and the phase in of spending cuts (sequestration) due to Congress being unable to reach a broader agreement on tax reform/spending reductions. In theory, both these issues should be negative for consumer spending and restrain growth. On the positive side, the Federal Reserve has committed to purchasing securities/keeping interest rates low until it is confident that unemployment is on a sustained move to 6.5% or lower. Other positive factors are the strength of the U.S. housing market and the increasing probability (in our opinion) that European economies are close to a bottom. If the latter turns out to be true, the impact of Europe not getting worse should ease a drag on the world's economy, including that of the U.S.

Regardless of the foregoing, the key to the longer term health of the U.S. is likely to be the success with which the Fed steps back from providing economic stimulus and whether the economy and markets can stand on their own without this support. Determining whether this occurs successfully is especially difficult given that the magnitude of the Fed's stimulus over the past four to five years is unprecedented.

With respect to international economies, as implied above we believe Europe is near a nadir. It seems to us that moves by the Chinese government to prevent property prices from further inflating are a favorable indication of responsible economic behavior. In the near term, however, this likely helps put a lid on growth.