DANN ASSET ADVISORS, LLC

Second Quarter 2013 Update

July 22, 2013

2Q13 Highlights

- U.S. 2Q GDP growth likely remained weak but Federal Reserve sees improvement coming
- Fed further outlines its strategy to reduce monetary stimulus
- Major emerging market economies and stock markets remain under pressure
- U.S. stocks outperform international
- Bond markets take a significant move down

Markets

The table below summarizes the performance of some key indices during the second quarter and year to date:

Market Performance

Index	% Ch. 2Q13	% Ch. YTD
S&P 500	2.9	13.8
MSCI Developed Markets (excl N Am)	-1.2	4.3
MSCI Emerging Markets	-7.9	-9.6
MSCI All Country World	-0.4	6.1
US Aggregate Bond (1)	-2.3	-2.4
Liquid High Yield (1)	-1.9	0.2
US Dollar Emerging Markets Bond (1)	-6.0	-8.7

(1) Barclays indices

Equities. The U.S. market (as measured by the large cap S&P 500 index) returned 2.9% for the second quarter. Combined with the 10.6% gain of the first quarter, the market had its best first half of a year since 1998 and, through May, had closed up for seven straight months. Volatility returned in June, with a decline of 6% from the May peak before a rebound into the end of the month.

The market generated these returns despite weak economic growth, with first half GDP likely expanding at only a 1.5%-2.0% rate. However, the stock market is forward looking and often leads turns in the economy by six to nine months – thus second half 2013 growth may in fact pick up as expected by the Fed. Although impossible to quantify, the Fed's efforts to keep interest rates low likely also contributed to the market's advance, at least into June. As of June 30, the S&P 500 was trading at roughly 15x 2013 estimated earnings, in line with long term averages.

In contrast to the U.S., international markets declined in the second quarter and emerging markets had an especially weak first half. Europe continued to see economic contraction and China and Brazil, two of the largest developing economies, had political and/or economic issues that caused their markets to decline. In addition, anticipation of reduced Fed stimulus contributed to U.S. dollar appreciation, further hurting many international stock market returns for U.S. investors.

Fixed income. The second quarter saw a significant rise in longer term bond yields, with the rate on the 10 year U.S. Treasury rising from 1.61% to as high as 2.67%; a substantial part of the rise

occurred subsequent to Ben Bernanke's further outlining on June 19th the Fed's strategy to potentially reduce bond purchases (with the implication for higher rates). The negative return of the U.S. Aggregate Bond index represented one of the worst quarters for that index in the past decade.

In our opinion, the reaction of the bond market to the Fed's statements was in some ways more extreme than that of the stock market, implying, to us, that the bond market at its most recent peak was more speculative than the stock market. It's worth noting that the Barclays 20+ Year Treasury Bond index had an 8.5% negative return through June, rivaling that of the Emerging Markets Bond index and substantially worse than the flattish performance of the Liquid High Yield index.

Portfolio Positioning

We continue to position the majority (generally over 75%) of the fixed income component of most diversified (fixed income and equities) portfolios with domestic investment grade securities having durations under three years. For many diversified portfolios we had owned an actively managed GNMA (government mortgage-backed securities) fund; duration on this fund had been in the three to four year range over the past two years but recently the manager had extended to five years, and, accordingly, we sold the fund (given continuing concerns over the potential for further rate increases). We also sold the last of a small position in a local currency emerging markets exchange traded fund (ETF).

In a continuing effort to pick up some yield, we initiated a small position for some accounts in a short term (2.5 year duration) bond fund that has leeway to invest a significant portion of assets in non-investment grade securities. Even with this relatively short duration, this fund did take a small hit with the recent rise in rates.

The short duration actively managed global bond fund that we've owned in small amounts for many diversified portfolios took a larger hit from its high in May; year to date through June this investment generated a negative total return (including income) of 1.5%. Approximately 50% of this fund's assets are in non U.S. dollar securities (strengthening dollar hurts). In addition, given recent events in China around bank lending rates, in our opinion there was some panic selling in emerging market securities in June and we believe this fund was affected by that. We continue to like this fund as a small position in diversified portfolios.

Going forward, we continue to expect interest rates to rise over the intermediate to longer term. We believe the recent move up in long term rates in response to Chairman Bernanke's June 19th comments was an overshoot by the markets and that near term rates may come down a bit.

With respect to equities, the best performing broad U.S. market sectors during the second quarter were consumer discretionary companies, telecommunications services, and financial services/healthcare. We're somewhat surprised by the strength of consumer discretionary stocks given tax increases at the beginning of 2013 and government spending cuts with sequestration, but stocks are forward looking and the strength of this group may reflect the recent significant improvement in the housing market plus the fact that the U.S. stock market has gained – both factors likely making consumers feel wealthier/more comfortable spending.

In contrast, the three worst performing sectors were utilities, real estate investment trusts and materials companies. The first two sectors usually react negatively to a rise in interest rates.

Weakness in materials companies most likely reflects the slowdown in several important emerging economies and a strengthening in the U.S dollar.

As during the first quarter, we continue to find more value in economically sensitive sectors. New positions initiated for many accounts during the quarter included a heavy equipment manufacturer and a U.S. distributor of industrial parts. In addition, we purchased an ETF focused on U.S. companies with increasing dividends (the majority of which are in economically sensitive businesses) and an actively managed mutual fund focused on Asian markets. This last investment was a switch from two indexed ETFs focused on emerging markets – the net of these three transactions being to raise some cash from the emerging markets allocation.

Economy

The U.S. economy grew at a 1.8% pace in the first quarter and is estimated to have expanded at a similar or slightly lower rate in the just-ended second quarter. Despite this sluggish pace, Ben Bernanke on June 19th implied that the Federal Reserve expects growth to accelerate over the second half of the year. His comments were made in connection with the Fed's announcing a potential timeframe for reducing the size of its bond purchases beginning this fall. Of note, the Fed also clearly stated that if the economy does not show improvement as expected, it will continue to purchase bonds and actually could increase the pace from the current $85 billion per month if needed.

Positives for the U.S. economy include continued strength in housing/autos, progress by consumers in deleveraging, and the fact that unemployment is in fact coming down, even if not as quickly as hoped. The economy has absorbed the initial impact of sequestration, but these forced spending cuts may have a greater impact in the second half of the year as furloughs and other cost reductions potentially impact consumer spending. Discussion around and resolution of the fiscal 2014 U.S. budget also could be a negative for the U.S. economy, as could uncertainty around the implementation of Obamacare. We are not worried about a significant negative impact on housing at current interest rate levels.

In Europe we continue to see signs of developing stability and the potential for some return to growth over the second half of 2013. Industrial production has grown modestly over the past three months and recent manufacturing data, while still down slightly, is better. A return to growth in Europe after six straight quarters of contraction should have a positive impact on the U.S.

The largest emerging economies have shown signs of stress recently, with attempts by the Chinese government to reduce speculation in their economy without causing a significant slowdown in growth, and Brazilians protesting their government's economic priorities. International markets also saw substantial volatility in the days following Mr. Bernanke's comments about potentially reducing bond purchases. A continuation of this type of volatility would have the potential to further restrain growth in certain of the emerging markets. On the other hand, it seems to us that change being implemented from the top down in China and from the bottom up in Brazil both potentially are positive for the long term.

Taking all the above into consideration, it seems there's the usual amount of uncertainty across the world. And an additional important wild card is whether central banks can successfully wean economies from economic stimulus/low interest rates without negative unintended consequences. Our belief is that absent significant deterioration in emerging economies, U.S. growth will pick up in the second half of the year – probably not to the 3%+ rate implied by the Fed's recent GDP forecast, but definitely an improvement from the first half of the year.

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