"NAVIGATING UNCERTAINTY"

As equity markets reach record levels, coupled with firmly entrenched fixed income headwinds, investors are rationalizing the improving economic footprint with current valuations. The environment, characterized by positive momentum, requires a continual reassessment. Furthermore, market participants must realize that long-term, prudent investment strategies are the best methods of positioning assets to deal with ever-present uncertainty.

ECONOMY:

The natural fluctuation of statistical data influences market participants while framing their economic outlook. ***Even in the face of a lower velocity of money, data points indicate the economic cycle continues moving in a positive trajectory,*** supported by the housing market, an energy renaissance, and a resilient consumer. Going forward, challenges remain due to political uncertainty, confidence levels, and the lack of sustainable demand traction. Furthermore, at this juncture of the economic cycle, a bifurcated economy has emerged as seen by distinct segments of the population enjoying success, while struggles intensify for a growing number of people. This structural dynamic could restrain future economic growth.

EMPLOYMENT OUTLOOK:

Both cyclical and structural factors shape the labor markets, leading to elevated unemployment levels and further delaying eventual employment normalization. Improvement in stubbornly high unemployment remains a focal point of Federal Reserve policy based on the ambiguous, Congressionally established mandate of promoting maximum employment levels. Corporations, fundamentally and structurally sound as indicated by solid balance sheets, remain reluctant to hire or deploy their sizable capital reserves until a sustained pickup in top-line demand materializes. The labor force participation rate has reached its lowest level in more than 30 years with individuals dropping out of the labor pool absent meaningful employment opportunities.

MONETARY POLICY:

Monetary policy uncertainty, coupled with historically low interest rates, continues to influence strategic and tactical portfolio decisions. Inflationary concerns continue impacting investor decision-making, and rising producer costs could result in a policy shift by the Federal Reserve toward a more restrictive stance, albeit delayed for some time. ***The absence of inflation pressures due to subdued input costs and moderate labor costs, as indicated by a benign Consumer Price Index, coupled with excess slack in manufacturing capacity, allows the Federal Reserve to focus on stimulating demand in an attempt to accelerate economic growth.***

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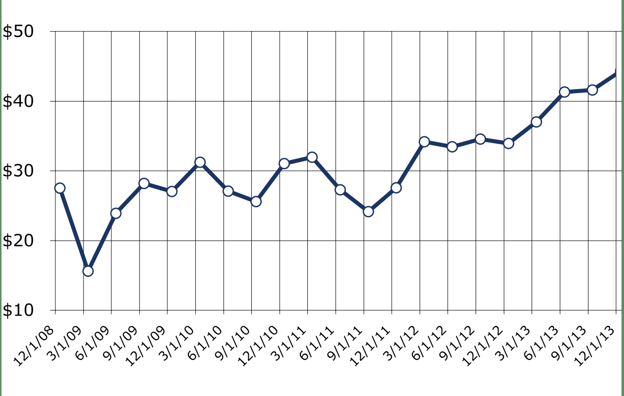
STOCK FOCUS: WELLS FARGO

Stock Symbol: WFC
Market Capitalization: $234B
Dividend Yield: 2.7%
Long Term Earnings: 7%
2013 P/E: 11.6x
Return on Equity: 13.8%

Wells Fargo, the fourth largest bank in the U.S., focuses on consumer banking, commercial banking, and investment banking services. The bank operates the 3rd largest retail brokerage firm in the country. Wells Fargo & Co. maintains a nationwide base of low-cost deposits, a relentless focus on customer service and an efficient business model that supports its financial flexibility. Because of this financial strength, management expects to boost the future dividend payout ratio, and subsequently, shareholders could see the dividend increase 50% over the next several years.



FEDERAL RESERVE LEADERSHIP:

The pending leadership change at the Federal Reserve, with Chairman Bernanke's term quickly drawing to a close, only exacerbates the uncertain policy outlook regarding quantitative easing (QE) and interest rates. The nature of leadership change can be transformative, disruptive, or neutral, and an orderly transition of a central bank's leadership structure dampens the potential for market stress. Janet Yellen, the nominee to head the Federal Reserve, is a highly capable, pro-growth central banker who embraces greater transparency of policy message. Yellen, an outspoken critic of the Federal Reserve's efforts to lower the unemployment rate, strongly believes the central bank should be more engaged in combatting the cyclical pressures resulting in non-normalized employment levels. ***Consequently, the markets are likely to see a continuation of the current policy accommodation with new leadership.***

POLITICAL ENVIRONMENT:

The perpetual cycle of uncertainty from Washington D.C. continues unabated. Domestically, politicians demonstrated their inability to govern, or manage our nation's fiscal affairs as seen by the rancorous debates ultimately leading to the government shutdown. The issues of sequestration, the budget, debt ceiling limits, and government funding will soon take center stage. Furthermore, mid-term elections will not provide any reprieve to investors from the political folly. ***Unfortunately, the current tone and tenor of policy negatively impacts corporate decision-making, infrastructure expansion, hiring, and ultimately the sustainability of long-term economic growth.***

OUTLOOK:

Investors embrace clarity across the economic, political, and financial landscapes. While the removal of all risks and the injection of complete certainty associated with investing are impossible, all investment decisions should be made against the backdrop of managing and controlling risks. The focus on solid, predictable cash flows from high-quality, dividend-paying companies and investment-grade, fixed-income instruments allows investors to successfully navigate the more volatile parts of the business cycle with greater confidence.

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