April 25, 2013

RE: 1st Quarter 2013

As March ended the first quarter of 2013, it also marked the 4th year of the market's recovery from the damage done by the financial crisis (Table 1). For the quarter the S&P 500 Total Return index rose 10.6%; for the four years the increase was 153%, driven by corporate profits.

Most noteworthy so far this year may be more enthusiasm by some for investing in equities. Although it is our opinion the Q1 vigor will be short-lived, we believe the market will continue to advance. Bull markets typically have rallies and corrections.

Investor psyches at this stage of an economic recovery tend to range from guarded optimism to pessimism with a bias toward pessimism. After a severe financial crisis it should not surprise us that many are still more discouraged than optimistic. It will take many more years to fully restore and sustain optimism. Optimism and confidence are vital to sustaining mature bull markets in equities. However the early advances do not normally require optimism. They occur in spite of pessimism.

While we all would like the positive feelings associated with being optimistic, perhaps the current more deliberate advance in equities is preferable. To enjoy a rapid and sustainable recovery would require the economy to be structurally sound. It is clearly not the case.

Without the historically unprecedented actions undertaken by the Federal Reserve our economy, as we know it, would not have survived. Without low interest rates the real estate markets would not likely be in recovery nor would equity prices have moved higher.

The federal government has assumed high debt levels, relative to GDP, to bolster the financial system that only occurred previously during World War II. Unlike World War II when debt levels were low, the financial crisis came on top of debt levels that were already unsustainably high.

The good news does come from within the bad news. Instead of quick fixes and unsustainable remedies made possible by borrowing, more fundamentally sound strategies are required.

In the first quarter conversations have begun to limit spending on entitlements. The impact of reduced defense spending is beginning to show up in the economy. Neither party is happy about it.

Slowly philosophical and political considerations are giving way to economic reality. About 1/3 of the Federal budget is from income taxes. About 1/3 comes from payroll taxes (mostly Social Security taxes). The final 1/3 is borrowed. Past solutions may have worked in the short run but they have compounded today's problems. With fully 2/3 of the budget going to mandatory spending and borrowing exceeding $1 trillion, something must change and it is.

We continue to believe that structural changes in the ways Washington taxes, spends and borrows are evolving into a more sustainable government that bodes well for the country and the economy.

Philosophies on both sides of the political spectrum are discovering sustainable solutions lie somewhere in the middle.

The markets are likely to continue their deliberate advance as old habits and customs in Washington "die."

Our investment strategy continues to favor equities over fixed income. We remain cautious in our fixed income portfolios and optimistic for a continued bull market in equities. However, it is wise to remind our equity investors that corrections are inevitable. We do not advise trying to time the markets; we promote and practice discipline in investing.

Curran Investment Management is grateful for your trust in us. Kevin and I welcome your opinions and invite you to call us to discuss your portfolios.

Curran Investment Management® is Defining Quality.®

Sincerely,

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TABLE 1

	Pre Crisis Market Peak Peak 10/9/07	Market Trough Trough 3/9/09	Latest 3/28/2013
S&P 500 Index (price)	1565	677	1569
S&P 500 Total Return Index (dividends reinvested)	2447	1095	2770
Corporate Profits After Tax	$1.3 Bil	$0.6 Bil	$1.8 Bil
Profits as % of GDP	9%	5%	11%
Unemployment	4.7%	8.7%	7.6%
30-Year Fixed Mortgage	6.4%	5.0%	3.6%
10-Year Treasury	4.7%	2.9%	1.9%
Fed Funds Rate	4.75%	0-0.25%	0-0.25%
Fed Balance Sheet (assets)	$0.9 Tril	$1.9 Tril	$3.2 Tril
Federal Debt % GDP (FY end)	65%	70%	103%
o/w Held by Public % GDP	36%	41%	73%

Sources: S&P Capital IQ; research.stlouisfed.org/fred2; whitehouse.gov; federalreserve.gov

Note: For Trough and Latest columns, Corporate Profits, Q4 data is the prior fourth quarter, seasonally adj at annual rate.

For Trough column, Federal Debt % GDP, FY end Sep 2008 is shown. FY 2009 figures would be 85% and 54%, respectively.

The following table provides the performance of relevant indices as of the first quarter of 2013.

INDEX	1ST Quarter 2013	Year to Date	LATEST 12 MONTHS
	%	%	%
Domestic Equity			
S&P 500 Index	10.61	10.61	13.96
S&P 500/Citi Growth Index	9.33	9.33	11.61
S&P 500/Citi Value Index	11.97	11.97	16.64
Dow Jones	11.94	11.94	13.37
Russell Midcap	12.96	12.96	17.30
Russell Midcap Growth	11.51	11.51	12.76
Russell Midcap Value	14.21	14.21	21.49
Russell 2000	12.39	12.39	16.30
Russell 2000 Growth	13.21	13.21	14.52
Russell 2000 Value	11.63	11.63	18.09
International Equity			
MSCI ACWI ex US	3.27	3.27	8.87
Domestic Fixed Income			
Barclays Gov/Credit Int. Bond	0.26	0.26	3.53
BofA ML 0-3 Year Treasury	0.09	0.09	0.50
BofA ML Muni 1-3 Year	0.42	0.42	1.02
Consumer Price Index	0.52	0.52	1.48
Cash Equivalents			
Citigroup 3-Mo. Treasury Bill	0.02	0.02	0.08

In the first quarter of 2013, the following changes were made in the portfolios we manage.

Buy/*Increase*	Sell/*Decrease*
Core Equity Portfolio	
Intuitive Surgical, Inc. (ISRG)	*eBay Inc (EBAY)*
Occidental Petroleum Corporation (OXY)	
Tractor Supply Company (TSCO)	
Wells Fargo & Company (WFC)	eBay Inc (EBAY)
Mid Cap Portfolio	
	Gildan Activewear Inc. (GIL)
Small Cap Portfolio	
Questor Pharmaceuticals, Inc. (QCOR)	
Growth & Income	
AbbVie, Inc. (ABBV)*	
Portfolio for Income	
Powershares Senior Loan Portfolio (BKLN)	*iShares iBoxx High Yield Corporate Bond (HYG)*
Portfolio for Growth	
iShares Core S&P 500 ETF (IVV) (in non-taxable accounts only)	SPDR S&P 500 ETF (SPY) (in non-taxable accounts only)
Universe Top Performers Portfolio (earliest to latest)	
OpenTable, Inc. (OPEN)	PetSmart, Inc. (PETM)
Western Digital Corp (WDC)	eBay Inc. (EBAY)

*AbbieVie Inc. is a spin off from Abbott Laboratories (ABT)

Note: The following portfolios had no changes: International Portfolio and International ETF.