Clients,

Market Perspectives

While I have decided to stay pretty much fully invested, it is hard to not pay attention to some indications of whether the markets overall are likely to go up or down. The sources I rely on most heavily for market trends are:

1. *Economic and Market Perspectives* by James Paulsen at www.WellsCap.com (free)
2. *Sentimentrader.com* by Jason Goepfert (subscription)
3. *Fractal Market Report* by David Nichols. www.fractalmarketreport.com/latestupdate1.php (subscription)
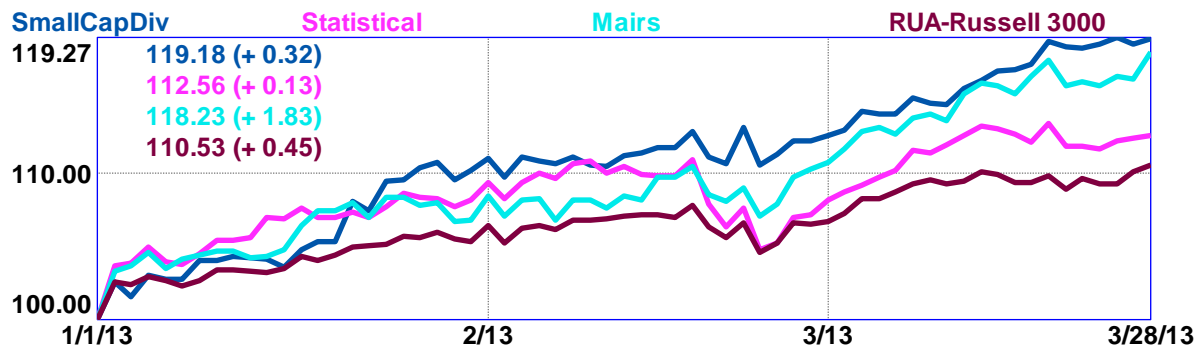
I believe that sometime in April we will see markets break out of the recent trading range and move higher throughout the next quarter. I'm more optimistic about markets than the economy, and more optimistic about the economy than the unemployment rates. The more software, robots and other forms of technology – read capital – are producing the goods and services we need and use, the more important it is to depend on capital rather than labor to supply our living expenses today and into the future. This is precisely why what I am doing for us is important.

Best Portfolios

I believe that our best performing portfolios this past quarter will continue to do well, even when we see a market decline. The best portfolios were:

1. Small Cap Dividend   21.6%
2. Mairs   20.3%
3. Statistical   16.5%

These returns significantly surpassed the strong returns of the Russell 3000, up 12.4% for the three months, and our entire book of business, up 12.5%.

SmallCapDiv   Statistical   Mairs   RUA-Russell 3000

119.27   **119.18 (+ 0.32)**
          112.56 (+ 0.13)
          118.23 (+ 1.83)
          110.53 (+ 0.45)

110.00

100.00

1/1/13   2/13   3/13   3/28/13

(Chart numbers are slightly lower because they merely average position prices, independent of position size, and dates used to define the quarter.)

Variation in Returns

A data page titled "Variation by Client and Portfolio" is attached. It gives a picture of the variation in different clients' returns for the past quarter. You can probably pick out where you rank. Be assured that next quarter it will be different. The data page is also interesting for studying the variation in returns within each portfolio. In general returns are more consistent for recently created portfolios in which I placed mostly the same stocks at the same time. Conversely there is

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more variation in portfolios that have been running for some time and in which I place a couple stocks every now and then depending upon the cash and allocation of an account. If you look at the data and decide you would rather be in other portfolios, let me know.

Review of Your Responsibilities and My Responsibilities.

Besides entrusting me with your money, and diligently analyzing the reports I send, your primary responsibility is, of course, to refer your friends, relatives and associates! You pay me to do the worrying and sort out as best I can, with whatever tools I can muster, how we might do enough better over time than market average returns in order to justify my fees.   If I can't do better for you over time than indexed returns, I would expect you to passively invest in indexed ETFs or find a manager more likely to give better returns. (From what I know, I think the latter would be difficult.) I see it as your responsibility to place under my management money that you want to make money. If your goal is primarily defensive, that is to not lose money, then that money should not be put under my management. If your goal is to merely match the market with all or any portion of your funds, that money should not be placed under my management. I will be happy to assist you in picking a balanced assortment of passive ETFs.

Continuing with how we share responsibilities, I invite you to select from the options I lay out. If you want to specify general allocations to different strategies and portfolios described in my WA Performance Report, I'm happy to comply. Most of you leave that to me, knowing something about your situation and preferences, and that is fine. As for timing, in the past I have at times gone to 10%, 20% or even 30% cash, although usually it doesn't work as well as staying more fully invested. Sometimes the cash buildup occurs short-term in the normal process of selling some stocks and buying others. If you are very nervous about the equity markets and want to go to 10% or 20% cash, I'm happy to comply. If you want to sell everything and that is also my judgment, we will sell everything. The market is likely to have fallen 20% with no support in sight. If you want to sell everything and that is not what I'm doing, I can do that for you and surrender the account.

If there are certain stocks you see in your portfolios that you would rather not own, either because of social consciousness or because you are already over-weighted in your other investment allocations, let me know and I can sell those positions.

Last Saturday and Sunday I spent paddling, camping and skiing in Wild River State Park. I had skied about 15 miles on the Sunrise Loop and met the first skier, so of course we had to chat. In due course he asked if I was retired and then what I did. When he followed up with when I might retire, I gave my usual response of when I get too senile to do what I'm doing. His reply with a smile was, "Given what you do, that shouldn't make any difference!" So those of you fearing abandonment have little to fear.

Scottrade Specials

The half price commissions from Scottrade went from August through about mid-March. It was very nice, but a $7 commission is still very competitive.

Scottrade now has a promotion to encourage bringing in employer 401k plans if you retired, IRA or SEP accounts to Scottrade. The offer is **$100** cash if you fund with $20,000-$99,000, **$300** cash if you fund with $100,000-$199,999, and **$600** cash if you fund with more than $200,000. Scottrade doesn't charge transfer, set-up or maintenance fees and will **refund up to $100** in other broker fees through a transfer reimbursement program. I'm not sure how long the promotion is in effect.

Thanks!

Lee