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Quietude

Global Markets and Regions

	1st QTR	2013 YTD
US	10.1%	10.1%
Developed Europe	2.1%	2.1%
Asia	4.2%	4.2%
Emerging Markets	-1.9%	-1.9%

US Markets

	1st QTR	2013 YTD
Dow 30	17.9%	17.9%
Large Cap Cos.	10.0%	10.0%
Mid. Cap Cos.	13.1%	13.1%
Small Cap Cos.	11.5%	11.5%
Bonds	-0.06%	-0.06%

The Fiscal Cliff (remember that story?), Sequestration, the Cyprus Bail In, Kim Jong Un Missile Madness, Iranian Nukes, Beppe Grillo, QE 4-Ever. Tomorrow and next week will bring more new names and games to the headlines and Twitter accounts across the globe. Mr. Market either hasn't noticed or likes what he sees. Maybe he's too amused by the spectacle to realize what's going on or possibly his mood will change to a more disturbed posture. The first quarter has certainly been kind to US equity markets, particularly the 30 stocks of the Dow Jones Industrial average. It's been a mixed bag for the rest of the world and fixed income has decided to take a rest. It was a quietly positive quarter.

What to make of it all? The economy actually continues to improve ever so modestly. GDP is barely growing at a 2% annualized rate. Will it accelerate to a rate that can generate jobs at a sufficient rate? Housing prices are continuing to improve but still have a long way to go. Construction spending, retail sales and personal incomes are improving but at rates that are far below what is "normal" for five years into an economic recovery. China, Vietnam, Myanmar, The Philippines, Mexico, Canada are providing some stability as Europe, other parts of Latin America and the Middle East appear ready to become more unstable. Does it get any better than this or is this as good as it gets? Is this the "New Normal", "Muddle Through", "Post Bubble" economy?

The Federal Reserve has been clear that they intend to continue to provide stimulus as long as the economy needs it. They've set a target of 6.5% unemployment and 2% inflation as the point they would begin to consider unwinding their support. The markets have responded favorably when Fed talks up their commitment to continued support. When they hint at or discuss the endgame is when markets

retreat. So is the Fed the markets only hope or can all their efforts finally induce the economy to grow on its own? It sometimes appears Mr. Market is paying more attention to the Fed than he is to the economy.

As for corporate fundamentals, it appears the upward trajectory in earnings and profit margins has slowed down and may even be reversing over the next few quarters. Mostly this is attributed to fall out from all of the headline developments and the slowing economy. If things can continue at their current pace or even accelerate earnings growth may pick up again later in the year. The plunge in corporate earnings in 2008 was severe. The recovery has been just as spectacular. But where do we go from here? Equity valuations while higher are not excessive by historical standards. But the fragility of overall economic environment makes for a very tenuous investment environment. We quietly move on.

On the horizon are a number of developments and trends that can or could be among the catalysts of the next great economic expansion and bull market; Cloud computing, smartphones, tablets, 3-D printing and their contribution to enhanced productivity; Fracking, directional drilling, energy independence and their impact on American manufacturing; major breakthroughs in the treatments of acute and chronic diseases and their impact on healthcare costs. If our dysfunctional political system and plodding economy can just keep moving, we might just get there.