



Market Commentary

3RD QUARTER 2013

Economic Summary

D.C. Dominates Headlines

The third quarter of 2013 was much like the first two with more gridlock and partisan bickering dominating the news. The federal government's partial shutdown overshadowed the disastrous rollout of the Obamacare exchanges. Debt ceiling talks and budget debates have been incredibly ugly. Is it any wonder that congressional approval ratings are 10% and the President is at 37%? Endless speculation regarding who would take the reins at the Federal Reserve has been put to rest with current Vice Chairman Janet Yellen getting the official nod. "When will the Fed taper?" has become a question on Wall Street and Main Street. Through it all, the stock market has been resilient.



Global Economic Growth: Slowly But Surely

Throughout the year we have been communicating our view that the economy is slowly improving. We still believe this to be the case. Corporations are turning out strong bottom-line results. Many are paying down debt and returning cash to shareholders through increased dividends and share buybacks. Topline growth has been harder to come by for many companies. Labor costs, as a percentage of profits, have been quite low (CHART 1) and with unemployment still stubbornly high, increases in labor costs in the near future will probably be minimal.

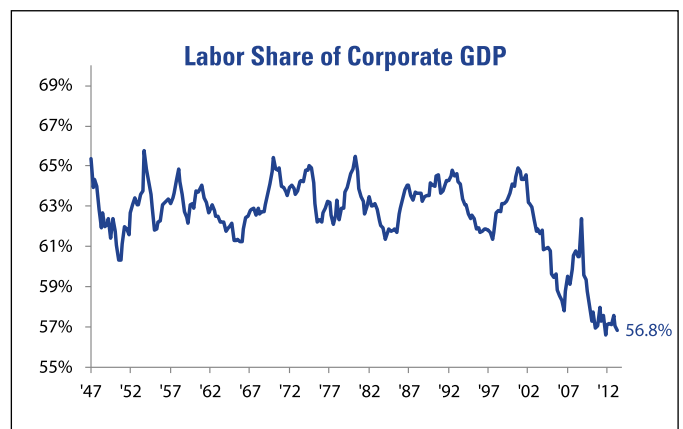


Chart 1

SOURCE: STRATEGAS RESEARCH PARTNERS
"INVESTMENT STRATEGY VIEWPOINT", OCTOBER 4, 2013

Massive worldwide monetary stimulation has resulted in a synchronized global economic expansion. It's not earth shattering, but for the better part of a year, it has been steady, and will serve to gradually supplement the modest growth in the U.S., due to incremental exports.

Past performance does not guarantee future results.

Economic Summary (CONTINUED)

The U.S. also continues to benefit from incredibly cheap natural gas prices domestically as compared with other countries. This, combined with the increased production of domestic oil, has created the distinct possibility for U.S. energy independence within the next five to ten years. This is a game-changing scenario. The benefits across the economy may be widespread. In our opinion, that many companies are in the midst of increasing manufacturing activity domestically because of this price differential is a large positive for the economy.

Stocks: T.I.N.A (There Is No Alternative)

With interest rates still unsustainably low, we continue to keep our bond maturities very short and credit quality very high. We feel that stocks are more attractive than bonds. Money flows into stocks has increased ever so slightly, but there is still a lot of money that entered the bond market that will eventually find its way back into equities (CHART 2).

Even though the stock market has more than doubled from its March 2009 lows, the Price-to-Earnings ratio (P/E) of the S&P 500 is just now reaching long-term averages (CHART 3).

We continue to be optimistic regarding future returns on well selected common stocks. Our portfolios contain many of what we consider to be world class companies. In our opinion, the best investment prospects are in companies with strong fundamentals that have the ability to increase revenues and profits which allows them to increase dividends. Despite record increases in dividends, there's still plenty of room for most companies to raise them further.

Many of today's high-flying stocks trade at unreasonably high P/E ratios. Because of their above average risk characteristics, we do not own those types of stocks in our portfolios.

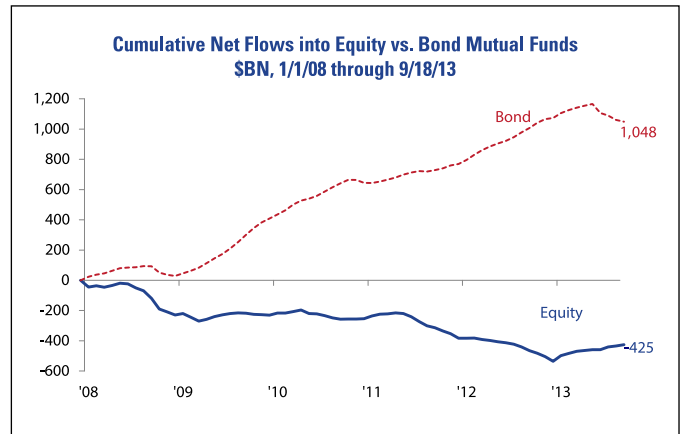


Chart 2

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS", OCTOBER 1, 2013

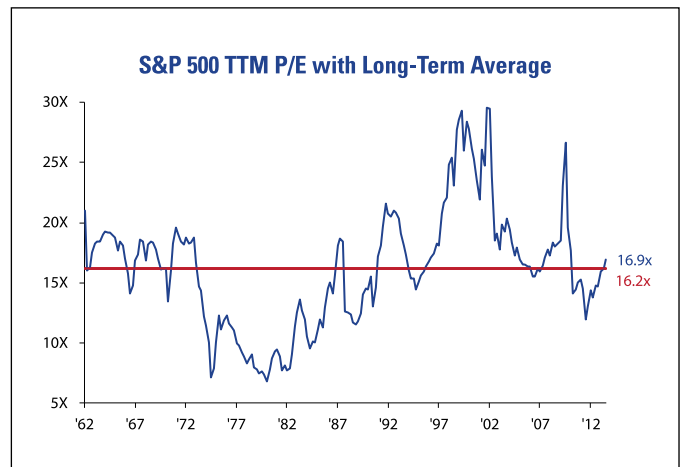


Chart 3

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS", OCTOBER 1, 2013

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3RD QUARTER 2013

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