FRENCH BROAD
G L O B A L
I N V E S T O R S
A LETTER TO OUR CLIENTS

JUNE 2013

Dear Clients,

The key to equity investment returns over the short term and longer term is primarily related to corporate profit growth. We experienced a recent 5% correction in U.S. equities as investors worried about the prospect for future corporate profits considering the following issues:

1. A rise in interest rates due to the Federal Reserve's announcement on possibly reducing bond purchases later this year.
2. Concerns about global economic growth prospects, particularly regarding China and Europe.
3. Political turmoil in some emerging markets such as Brazil, Turkey, and Egypt.

As I have mentioned previously, I can't predict the economic future. My guess is that the recovery in the U.S. economy still has room to run coming off our depressed economic base in 2008-2009. Interest rate increases should be manageable as there remains impediments to strong economic growth. U.S. stocks seem undervalued at about 14 times 2013 expected earnings vs. a historical average of 16.5x. Stock market "Bears" say that stocks are not cheap because corporate margins are at record highs and will eventually trend down. I do not see any imminent cost pressures either involving material or labor. Corporations have been lean, some might say mean, but I do not see them changing philosophy any time soon. The major threat for investors remains the potential for weak earnings caused by a drop off in economic activity.

Longer term the size of the U.S. sovereign debt along with most developed countries is of concern. Just like the recent "sequester" has negatively affected economic growth, future tax increases and entitlement cutbacks will have a negative effect on future growth. It is the price to be paid for living beyond our current means. However, we are not facing presently pressures to rectify our debt situation. Hopefully intelligent policies will be implemented over the coming years to smooth the transition from high debt to moderate debt levels.

We have inched into emerging markets which have fallen substantially, but we will be cautious adding to our emerging markets positions. Even though prospects for economic growth are muted in Europe, we still find many European multinational companies attractive. In the U.S., defensive high dividend yielding equities which had been outperformers suffered when interest rate fears arose. We trimmed our positions in utility stocks such as Nextera, PPL, and some other defensive names like Pfizer, Covidien, Roche, Alliance Bernstein, Unilever, and Baxter International. Your portfolio is well balanced with good dividend yielding stocks and moderately valued growth oriented companies. We continue to be underweight in materials companies including mining and oil & gas, as global growth seems to be too slow to ignite commodities prices.

In summary equities are undervalued, fixed income (bonds) are overvalued and money market yields are nothing. I would suggest we continue to climb the "wall of worry" and remain invested in equities. I am optimistic for the second half of the year, but expect some consolation and volatility in markets. I look forward to meeting and talking with you soon.

Kind Regards,

Dan Jacobs, CFA