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The Good, the Very Good, and the Scary

The daily news continues to careen from one perceived financial crisis to another. As we enter Spring 2013 we believe it is worth elaborating on what we call "The Good, The Very Good, and the Scary".

First, the good news: in our last commentary we noted our concern for how the markets would digest the political theatre of the Fiscal Cliff and the Sequester. With this water under the bridge we are pleased to comment on the equity markets advance in Q1 2013. There are aspects to the rally that we think are questionable, but we like rising portfolio values.

For the first time we are currently testing the November 2007 highs. While the rally has been broad, the financial sector has gotten the lion's share of the advance. The financial sector's rebound is partly due to the Federal Reserve Board's (Fed) policy of printing money to buy Treasury bonds. These infused investments have an immediate impact on stock and commodity prices. The axiom is that when there is an excess of capital in the financial system, that excess will seek the most liquid and highest yielding assets. Stocks fit both of those criteria. As long as the Fed is an active player, their influence will be seen.

Next, the very good news: long-time readers and clients know our portfolios have been over weighted with listed energy Master Limited Partnerships (MLPs). This industry provides the transport, storage, and in some cases refining of crude oil and natural gas. We have documented over the years the reduction of U.S. oil imports over time. According to the American Energy Agency, it is now estimated that North America has many times the reserves in the Middle East.

This sector began a rapid growth pace as the Great Recession began. While the overall economic recovery is anemic, the extraction of fossil fuels from shale rock is the economy's brightest light. The sector leads the country in new jobs, and the unemployment rates in the Plains States are almost half the national average.

It will take several more years to complete the build out of the infrastructure needed to transport, store and refine the nation's newfound bounty. The capital expenditures (CAPEX) for new systems to support our path to energy independence have been sharply rising for three years now. Today's new projects are tomorrow's source of distribution growth!

We think the continued growth in distribution income and price appreciation in this MLP sector is certainly very good news for our clients!

Equity prices are closely tied to corporate earnings. As the economy grows, corporate earnings have a downwind effect, making growth easier. When the economy struggles, the growth of earnings and thus equity prices usually also struggle.

Currently, we are in a very sluggish macro economy. Corporate profits are growing at a slower rate than last summer. Despite $6 trillion dollars in new debt, the functional unemployment rate still exceeds 14%. We will show you below that the economy seems to be slowing further. Yet, the stock market rolls on through the 2007 peaks for the first time.

We said before that we like rising stock prices as much as anyone. However, we feel strongly that stock prices have become disconnected from the economy and corporate earnings. **This is where the scary part comes in**. We think the markets are being tickled by the Federal Reserve Board's monetary policy. This policy creates excess liquidity in the system, which tends to flow to the stock market.

We can look at economic indicators from the last time the Dow Jones 30 Industrial Index (DOW) crossed 14,164 in November 2007, and the March 5th, 2013 crossing of DOW 14,164. Data is from zerohedge.com

	THEN	NOW
• Price of a gallon of gasoline	$2.75	$3.75
• GDP Growth	2.5%	1.0%
• Unemployed (millions)	6.7	13.2
• Total US Gov. Debt (trillions $)	9.0	16.43
• Labor Participation Rate	65.8%	63.6%
• Consumer Confidence	99.5	71.6
• S&P Rating of US Gov.	AAA	AA+
• Gold ($/ounce)	748	1573
• Median Family Income	$55,600	$51,400

In theory, if we are exceeding a market high of four years ago, we would expect to see economic barometers equal or even stronger than the point at which markets reached their zenith. Remember, the prior zenith was an overpriced market within 10 months of the mortgage market blowing up and the onset of the Great Recession. We would expect to see economic fundamentals exceeding their 2007 highs.
Instead, we are concerned that many of the gauges of economic activity are much weaker today than in November 2007. We see these types of comparisons as anecdotal evidence that the rising stock market may be disconnected from economic and earnings fundamentals.

WHAT DO WE EXPECT JUST AHEAD?

The good news is that equity prices are rising, and the 10 year T-Bond rate has stabilized near 2%, up from 1.5% last July.

We expect the market to rally into spring. The amount of idle cash assets has been in the trillions for some time now. These investments are now finding their way into the stock market.

With equity prices rising, we need to see if the rally has durability. On its face, we are very skeptical of this rally. Not only are many economic data points lower than they were at the 2007 market top, reports released in February and early March indicate the economy is not getting stronger. If so, this rally has become disconnected with economic fundamentals. If the economy and earnings weaken this summer, much of the rally may correct lower.

While this scenario seems obvious to us, we subscribe to the axiom that markets know more than anyone or group of players in it. With this in mind, perhaps the greater market has decided that the economy will actually begin to grow robustly again in the second half of 2013! If so, the markets actions are most justified, and should continue into 2014.

We'll have to wait and see which scenario plays out. For now, our portfolios are rising in value, and that's what most important.

In summary: by historical standards, the economy has been in recovery since 2010. We are very concerned that the recovery has been too anemic to ignite a wealth creation cycle. Looking at the near future, the data points for consumers and producers doesn't seem to be pointing to a return to 4%+ GDP growth at this time.

It is hard for us to connect equity prices, which are supposed to discount future growth, when we see such an anemic near term economic future. For these reasons, we believe the stock market has been disconnected from economic fundamentals. This condition leaves us fully invested, yet wary as the rising stock market marches on.

PORTFOLIOS

For discretionary clients, we made a strategic decision in November 2012 to reduce exposure to non income producing assets. We were uncomfortable with risk/reward ratios given the risks we like to assume and the chess board at the time. We relied heavily on our energy MLPs and a few select stocks and an elevated level of cash. When the market rallied sharply in January 2013, the MLPs we owned also rose sharply in price.

As the effects of the Fiscal Cliff, increased taxation, and the Sequester became more known in late February, we reallocated some of our cash back into traditional growth investments. We will maintain a more fully invested stance as long as we see it is warranted.
In the bond markets, we saw some opportunity too. The 10 year T-bond rate rose in the latter part of 2012 from its low near 1.45% to the 2% level. We see this rise in rates as an opportunity to lock in rates for some of our 0% return cash holdings. While the specter of rising rates is real, we are confident we can manage a gradual rise in rates.

We also want to mention two investment vehicles that are being introduced to our portfolios at this time.

We read the same papers and watch the same TV as our readers. We know that everyone and their plumber thinks interest rates must rise and now. While we don't totally agree with the intensity of their analysis, we have researched some income investments designed to hold their value and potentially rise in value as interest rates rise. They are called "negative duration" investments. If you'd like to know more about them, please call the office and speak with Lowell.

The second strategic move is into investments that offer the tactical ability to invest in just about anything, anytime between stocks, bonds, and cash. These investments tend to have a relatively smaller number of stocks compared to larger "style specific" investments. Additionally, there can be great benefit allowing the portfolio managers freedom to invest in any idea they find to be beneficial. Again, if you would like more information on these "go anywhere" investments, please contact Lowell.

ENCLOSURES

Enclosure #1 shows the inverse relationship between interest rates and bond prices. From MFS Financial, it illustrates what would happen to a five year T-Bond price as rates rise. It has been three decades since rates have trended higher. We have been waiting for inevitable rise in rates, which appears to us to have finally arrived.

Enclosure #2 is a list of all the new bureaucracies created under the Affordable Care Act. Given the three page list, it is difficult for us to believe that the Act will make healthcare more *affordable*. Still, the Act is set for full implementation in 2014, so we think we should all see how much more government is needed for national health care to operate.

Enclosure #3 is a one page picture of the midstream process for the transport, storage and refining of crude oil and natural gas. Our portfolio's greatest concentration is in this sector. The midstream process is quite similar to a toll road business model. Midstream companies do not own the oil/gas, rather they sell their pipeline and storage facilities forward into the future. Because of this we can currently see much of their revenue for 2014 and 2015. The revenue visibility allows for research into the likely growth rate of MLP distributions. We continue to believe the energy MLPs in the midstream sub-sector could continue to outperform much of the equity markets.

Important Disclosures

This report is not intended as a complete description of the securities, markets or developments referred to herein. It should not be viewed as an offer to buy or sell any of the securities mentioned. Information has been obtained from sources considered reliable, but we do not guarantee that the foregoing report is accurate and complete. Additional information and sources are available upon request.

The enclosures are being provided for informational purposes only. They do not necessarily reflect the opinion of Raymond James & Associates or its employees. Raymond James & Associates does not render legal advice on tax or legal matters. You should consult with a qualified tax advisor prior to making any investments decision.

Past performance does not guarantee future results. There is no assurance the trends mentioned will continue. No investment strategy, including diversification and asset allocation, can guarantee a profit or protect against loss in a declining market. This analysis does not include transaction costs and tax considerations. If included these costs would reduce an investor's return.

Fixed income securities are subject to risks including interest rate, inflation, credit and market risks. If sold prior to maturity, an investor will receive the current market value, which may be more or less than the original investment.

The S & P 500 is an unmanaged index of 500 widely held stocks generally considered representative of the US equity market. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. It is not possible to invest directly in an index

MLP distributions are not guaranteed. The actual amount of cash distributions may fluctuate and will depend on the future operating performance. Increasing interest rates could have an adverse effect on MLP unit prices as alternative yields become more attractive.

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Views expressed in this report are the current opinion of the authors, but not necessarily those of Raymond James & Associates. The authors' opinions are subject to change without notice.

Asset allocation and diversification do not ensure a profit or protect against a loss. Gross Domestic Product (GDP) is the annual total market value of all final goods and services produced domestically by the U.S.

Companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Investments in the energy sector are not suitable for all investors. Further information regarding these investments is available from your financial advisor.

Enclosure 1
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Insightful Investor
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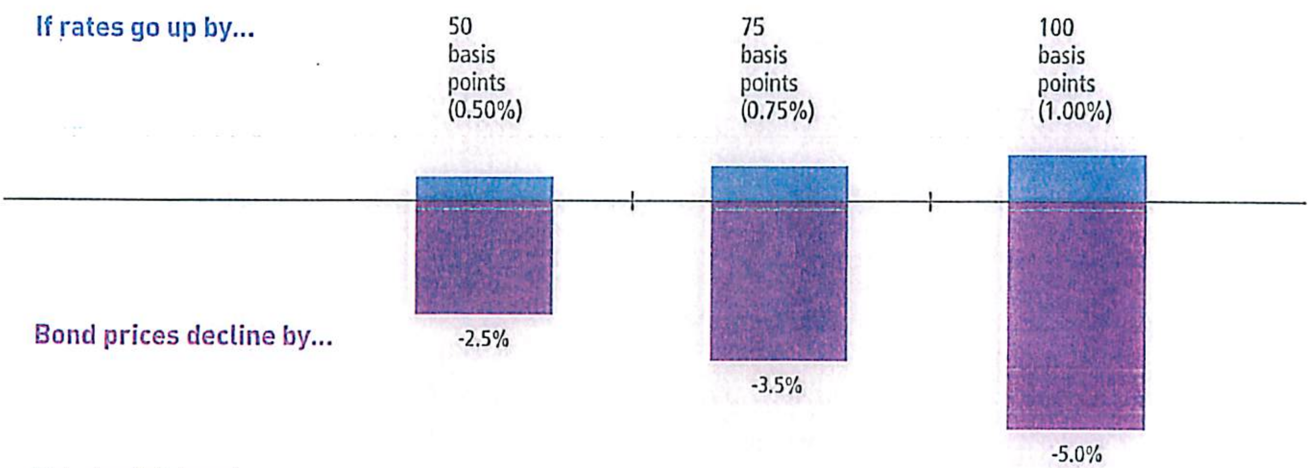
WHEN INTEREST RATES GO UP, BOND PRICES GO...?

Only one in five investors know how interest rates affect bond prices

In a 2009 study on financial capability, only 21% of respondents knew that prices on existing bonds go down when interest rates go up.[1] Prices and rates move inversely because older bonds with lower rates are less attractive to buyers than newly issued bonds that offer higher rates.

When rates go up, prices go down

Take a look at the examples below, illustrating the effect of rising rates on a 5-year US Treasury bond.



This is a hypothetical example.

Where interest rates have been historically

2011	0.25%	2000	6.50%	1985	7.75%
2010	0.25%	1995	5.50%	1980	18.00%
2005	4.25%	1990	7.00%	1975	4.88%

The US federal funds rate at the end of each year

Talk to your advisor to understand how interest rate changes may impact you.

[1] Source: *National Financial Capability Study, 2009 National Survey*, Financial Industry Regulatory Authority

See the reverse side for other important information.

House of Representatives

RAW DATA: GOP List of New Bureaucracies' in House Health Care Bill

The following is a list of the "new federal bureaucracies" that the House Republican Conference claims are created in House Speaker Nancy Pelosi's health care reform bill.

1. Retiree Reserve Trust Fund (Section 111(d), p. 61)
2. Grant program for wellness programs to small employers (Section 112, p. 62)
3. Grant program for State health access programs (Section 114, p. 72)
4. Program of administrative simplification (Section 115, p. 76)
5. Health Benefits Advisory Committee (Section 223, p. 111)
6. Health Choices Administration (Section 241, p. 131)
7. Qualified Health Benefits Plan Ombudsman (Section 244, p. 138)
8. Health Insurance Exchange (Section 201, p. 155)
9. Program for technical assistance to employees of small businesses buying Exchange coverage (Section 305(h), p. 191)
10. Mechanism for insurance risk pooling to be established by Health Choices Commissioner (Section 306(b), p. 194)
11. Health Insurance Exchange Trust Fund (Section 307, p. 195)
12. State-based Health Insurance Exchanges (Section 308, p. 197)
13. Grant program for health insurance cooperatives (Section 310, p. 206)
14. "Public Health Insurance Option" (Section 321, p. 211)
15. Ombudsman for "Public Health Insurance Option" (Section 321(d), p. 213)
16. Account for receipts and disbursements for "Public Health Insurance Option" (Section 322(b), p. 215)
17. Telehealth Advisory Committee (Section 1191 (b), p. 589)
18. Demonstration program providing reimbursement for "culturally and linguistically appropriate services" (Section 1222, p. 617)
19. Demonstration program for shared decision making using patient decision aids (Section 1236, p. 648)
20. Accountable Care Organization pilot program under Medicare (Section 1301, p. 653)
21. Independent patient-centered medical home pilot program under Medicare (Section 1302, p. 672)
22. Community-based medical home pilot program under Medicare (Section 1302(d), p. 681)
23. Independence at home demonstration program (Section 1312, p. 718)
24. Center for Comparative Effectiveness Research (Section 1401(a), p. 734)
25. Comparative Effectiveness Research Commission (Section 1401(a), p. 738)
26. Patient ombudsman for comparative effectiveness research (Section 1401(a), p. 753)
27. Quality assurance and performance improvement program for skilled nursing facilities (Section 1412(b)(1), p. 784)
28. Quality assurance and performance improvement program for nursing facilities (Section 1412 (b)(2), p. 786)
29. Special focus facility program for skilled nursing facilities (Section 1413(a)(3), p. 796)
30. Special focus facility program for nursing facilities (Section 1413(b)(3), p. 804)
31. National independent monitor pilot program for skilled nursing facilities and nursing facilities (Section 1422, p. 859)
32. Demonstration program for approved teaching health centers with respect to Medicare GME (Section 1502(d), p. 933)
33. Pilot program to develop anti-fraud compliance systems for Medicare providers (Section 1635, p. 978)
34. Special Inspector General for the Health Insurance Exchange (Section 1647, p. 1000)
35. Medical home pilot program under Medicaid (Section 1722, p. 1058)
36. Accountable Care Organization pilot program under Medicaid (Section 1730A, p. 1073)
37. Nursing facility supplemental payment program (Section 1745, p. 1106)
38. Demonstration program for Medicaid coverage to stabilize emergency medical conditions in institutions for mental diseases (Section 1787, p. 1149)

39. Comparative Effectiveness Research Trust Fund (Section 1802, p. 1162)
40. "Identifiable office or program" within CMS to "provide for improved coordination between Medicare and Medicaid in the case of dual eligibles" (Section 1905, p. 1191)
41. Center for Medicare and Medicaid Innovation (Section 1907, p. 1198)
42. Public Health Investment Fund (Section 2002, p. 1214)
43. Scholarships for service in health professional needs areas (Section 2211, p. 1224)
44. Program for training medical residents in community-based settings (Section 2214, p. 1236)
45. Grant program for training in dentistry programs (Section 2215, p. 1240)
46. Public Health Workforce Corps (Section 2231, p. 1253)
47. Public health workforce scholarship program (Section 2231, p. 1254)
48. Public health workforce loan forgiveness program (Section 2231, p. 1258)
49. Grant program for innovations in interdisciplinary care (Section 2252, p. 1272)
50. Advisory Committee on Health Workforce Evaluation and Assessment (Section 2261, p. 1275)
51. Prevention and Wellness Trust (Section 2301, p. 1286)
52. Clinical Prevention Stakeholders Board (Section 2301, p. 1295)
53. Community Prevention Stakeholders Board (Section 2301, p. 1301)
54. Grant program for community prevention and wellness research (Section 2301, p. 1305)
55. Grant program for research and demonstration projects related to wellness incentives (Section 2301, p. 1305)
56. Grant program for community prevention and wellness services (Section 2301, p. 1308)
57. Grant program for public health infrastructure (Section 2301, p. 1313)
58. Center for Quality Improvement (Section 2401, p. 1322)
59. Assistant Secretary for Health Information (Section 2402, p. 1330)
60. Grant program to support the operation of school-based health clinics (Section 2511, p. 1352)
61. Grant program for nurse-managed health centers (Section 2512, p. 1361)
62. Grants for labor-management programs for nursing training (Section 2521, p. 1372)
63. Grant program for interdisciplinary mental and behavioral health training (Section 2522, p. 1382)
64. "No Child Left Unimmunized Against Influenza" demonstration grant program (Section 2524, p. 1391)
65. Healthy Teen Initiative grant program regarding teen pregnancy (Section 2526, p. 1398)
66. Grant program for interdisciplinary training, education, and services for individuals with autism (Section 2527(a), p. 1402)
67. University centers for excellence in developmental disabilities education (Section 2527(b), p. 1410)
68. Grant program to implement medication therapy management services (Section 2528, p. 1412)
69. Grant program to promote positive health behaviors in underserved communities (Section 2530, p. 1422)
70. Grant program for State alternative medical liability laws (Section 2531, p. 1431)
71. Grant program to develop infant mortality programs (Section 2532, p. 1433)
72. Grant program to prepare secondary school students for careers in health professions (Section 2533, p. 1437)
73. Grant program for community-based collaborative care (Section 2534, p. 1440)
74. Grant program for community-based overweight and obesity prevention (Section 2535, p. 1457)
75. Grant program for reducing the student-to-school nurse ratio in primary and secondary schools (Section 2536, p. 1462)
76. Demonstration project of grants to medical-legal partnerships (Section 2537, p. 1464)
77. Center for Emergency Care under the Assistant Secretary for Preparedness and Response (Section 2552, p. 1478)
78. Council for Emergency Care (Section 2552, p 1479)
79. Grant program to support demonstration programs that design and implement regionalized emergency care systems (Section 2553, p. 1480)
80. Grant program to assist veterans who wish to become emergency medical technicians upon discharge (Section 2554, p. 1487)
81. Interagency Pain Research Coordinating Committee (Section 2562, p. 1494)
82. National Medical Device Registry (Section 2571, p. 1501)
83. CLASS Independence Fund (Section 2581, p. 1597)
84. CLASS Independence Fund Board of Trustees (Section 2581, p. 1598)
85. CLASS Independence Advisory Council (Section 2581, p. 1602)
86. Health and Human Services Coordinating Committee on Women's Health (Section 2588, p. 1610)

87. National Women's Health Information Center (Section 2588, p. 1611)
88. Centers for Disease Control Office of Women's Health (Section 2588, p. 1614)
89. Agency for Healthcare Research and Quality Office of Women's Health and Gender-Based Research (Section 2588, p. 1617)
90. Health Resources and Services Administration Office of Women's Health (Section 2588, p. 1618)
91. Food and Drug Administration Office of Women's Health (Section 2588, p. 1621)
92. Personal Care Attendant Workforce Advisory Panel (Section 2589(a)(2), p. 1624)
93. Grant program for national health workforce online training (Section 2591, p. 1629)
94. Grant program to disseminate best practices on implementing health workforce investment programs (Section 2591, p. 1632)
95. Demonstration program for chronic shortages of health professionals (Section 3101, p. 1717)
96. Demonstration program for substance abuse counselor educational curricula (Section 3101, p. 1719)
97. Program of Indian community education on mental illness (Section 3101, p. 1722)
98. Intergovernmental Task Force on Indian environmental and nuclear hazards (Section 3101, p. 1754)
99. Office of Indian Men's Health (Section 3101, p. 1765)
100. Indian Health facilities appropriation advisory board (Section 3101, p. 1774)
101. Indian Health facilities needs assessment workgroup (Section 3101, p. 1775)
102. Indian Health Service tribal facilities joint venture demonstration projects (Section 3101, p. 1809)
103. Urban youth treatment center demonstration project (Section 3101, p. 1873)
104. Grants to Urban Indian Organizations for diabetes prevention (Section 3101, p. 1874)
105. Grants to Urban Indian Organizations for health IT adoption (Section 3101, p. 1877)
106. Mental health technician training program (Section 3101, p. 1898)
107. Indian youth telemental health demonstration project (Section 3101, p. 1909)
108. Program for treatment of child sexual abuse victims and perpetrators (Section 3101, p. 1925)
109. Program for treatment of domestic violence and sexual abuse (Section 3101, p. 1927)
110. Native American Health and Wellness Foundation (Section 3103, p. 1966)
111. Committee for the Establishment of the Native American Health and Wellness Foundation (Section 3103, p. 1968)

Enclosure 3
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Leading Business Positions Across Midstream Energy Value Chain