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A Fork in the Road

We are convinced that adjusting portfolio allocations as we perceive market risks rising and falling is a key to limiting quarterly volatility and enhancing returns. Most of the time, our tactical decisions adjust portfolios to take advantage of emerging economic trends. At other times we attempt to avoid excessive risk in stressful times.

Today, we find ourselves in an unusual dilemma. We think it is most prudent to see the present as a fork in the strategic road. When constructing our investment path, we try to analyze risk-reward balances for various trends and investments. Most of the time, this process is an intellectual discipline honed over 35+ years of experience. Lately, the presidential election keeps coming into the analytical equation. Buy, sell, and hold evaluations seem to have different potential outcomes depending on who will be president in 2013.

The economic battlefield in the election is likely to center around issues that include general growth, taxes, health care, labor costs, and deficits. The differences in potential scenarios dramatically change with who wins the presidency. Since we cannot know this outcome in advance, we view these conditions rare strategic fork in the road.

We can open our investment tactical tool box and pull out an idea that served Lewis and Clark well when encountering a critical fork in *their* road.

So what do you do at the fork in the road? Iconic catcher for the New York Yankees Yogi Berra once said "...when you get to the fork in the road take it".

It is rumored that Berra once lived on a lake that had a ring road. When visitors arrived from the main road they approached the fork in the road. If they turned right, it was 12 miles around to Berra's home, and 8 1/2 miles if to the left. Either way, they would get to Yogi Berra's home.

In 1804, President Jefferson assembled what was named the Corps of Discovery. With the Louisiana Purchase secured, Jefferson, as well as the British and Spanish, saw the need to secure what was believed to be a transcontinental water route from the Mississippi River to the Pacific Ocean. Meriweather Lewis, Jefferson's personal secretary and a Revolutionary War officer was given the assignment to follow the Missouri River westward in search of the route. He turned to a fellow War officer, and Kentucky frontiersman friend William Clark to assemble the team. The Corps of Discovery set sail in the spring of 1804.

By the spring of 1805, they had made dozens of decisions of which bends and forks in the river to follow to stay on the Missouri. Most decisions were easy. When they encountered a fork in the river, they would look to see which direction was wider, deeper and had the stronger current. This was likely the main river.

In eastern Montana the expedition approached a fork in the river that looked equal in choice. Choosing the wrong fork in the river could ruin the mission, and even be fatal. When in this situation, it is paramount to find the correct course and have confidence in the decision before moving ahead.

They stopped made camp near the fork in the river to consider their options. Recon teams were sent up each fork for a five day period and then returned to camp. Once reassembled, the group analyzed what they saw. Lewis and Clark as leaders left the group for sometime before proclaiming the southern fork was the true Missouri, and they would head upriver the next morning. They were of course correct.

We feel our investment practice is at a similar point in its journey. Our tactical tools are designed to allow us the opportunity to adjust our holdings to how we perceive the next 1-5 years may play out. The presidential election's outcome, having such potentially different effects on how we view risk, becomes our fork in the road.

The process we will follow reflects our knowledge of Lewis and Clark's strategy. We have made "intellectual camp". This started with our Life Boat drill in April. This involved reducing risks in capital appreciation stocks and increasing allocation to bonds and cash. While in camp we are not vetting any new ideas or researching new trends. We will wait until we know better which fork in the river to take. The good news is that we shouldn't have to wait too long for the answer.

Don't forget that one of our core beliefs is that markets know more than any one or group of players in it. Since markets act as a financial mechanism of discounting the future, we expect markets to send a message about what it thinks the outcome of the election will be. That may be as early as this Summer, but certainly by Autumn.

IN SUMMARY:

Investment strategies usually conclude with taking definitive action in one direction or another. Every now and then, it may be prudent to stop and establish camp in order to properly determine the right way to go. This allows us to be more confident when deciding which path to take.

WHAT DO WE EXPECT AHEAD?

In January 2012, we titled our commentary “Going Violently Nowhere”. At the time, we pointed out the market had experienced great volatility in the prior five years, but rested near levels from 2006. As of this writing, the equity markets are very near their 2011 year end levels. We think the forces that have made the markets go violently nowhere are still present.

We also expect some of the more scary financial stories to dominate the news, and be the energy the markets need to go violently nowhere. These stories include, but certainly not an exclusive list:

- The EuroZone Financial Soap Opera
- The mess that we call the domestic economy - including:
 - GDP growth in general
 - The Fiscal Cliff
 - Slowing corporate earnings
 - The deficit
- The Middle East – Including, but not limited to:
 - Iran’s nuclear capabilities
 - Israel’s presumptive attack and its collateral effects
 - The new government in Egypt not exactly resembling what was envisioned in the Arab Spring of 2011
- Economic growth rates in Asia which appear weaker than any time since the banking crisis of 2008.

The potential sources for market stress and increased volatility seem everywhere right now. Perhaps the best place for investors like us is to be camped where we stand; owning only investments we consider our core holdings, and let the greater risk takers dominate the field. Our campsite here at the fork in the river gives us a great view as we observe, and leaves us in a good position to break camp on our own terms.

If anyone would like a deeper analysis of how we think the stock market might act given the winner of the election, please email or call and we’ll share our thoughts.

PORTFOLIOS

Portfolios we manage by discretion have seen many changes as the year has progressed. In December 2011, we had a fully invested stance. Fully invested means to us that we are willing to own capital appreciation assets to augment our overweighting in income producing positions. This strategy served us well in 2010-11. In April 2011, we announced our Life Boat Drill. When we perceive general risks rising, we wish to only hold investments we consider our core holdings.

We reduced/eliminated holdings in capital appreciation positions. In early May we reduced/eliminated our positions in China and the Emerging Markets. We increased holding in short term bonds and cash with the proceeds of these transactions.

The risk of some of what we may own is rising beyond its reasonable expectation of return in the next 6-18 months. What was a pasture of opportunity last year looks more like a mine field today. What does all this mean to the portfolios we manage by discretion? It means that in general, our collective holdings amount to:

- An increase in cash holdings
- An increase in short term (3-5 years) bonds
- Holding only growth stocks that are exceeding earnings expectations x (we hold three such stocks currently)
- Maintain our positions in energy MLPs and select REITs. (see Enclosure #1)

To us, portfolios as listed above have limited risk exposure, excellent liquidity, and relatively high levels of cash flow. We are comfortable with this position until markets deliver their message of which fork in the river we need to cope with. We'll break camp and move on then.

ENCLOSURES

Enclosure #1 pertains to our allocation overweighting to the energy MLP sector. May 2012 brought a legitimate price correction to our core investments. The piece highlights the expected distribution growth rates of these assets for the next three years. We remain very optimistic for these investments.

Enclosure #2 – Between 1940 and 1990 it was axiomatic on Wall Street to say “As goes GM, so goes the market”. In that period, the U.S. economy was so dominant; its largest company had the largest footprint. Its stock price was a great indicator of the economy in general. Today, with the U.S. merely fitting in with a faster growing world economy, we believe another company may be the symbolic equivalent to GM in its glory days. We introduce to readers: The John Deere Indicator.

Enclosure #3 – Throughout 2008 and 2009, TWR referred to the combination of declining stock prices, imploding real estate prices and economic recession as a “Wealth Destruction Wave”. Now four years later, Bloomberg summarizes the Wave as an almost 40% decline in median household wealth. We believe this Wave is a large contributor to the current anemic economic recovery.

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.

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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. 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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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.

Distribution Estimates for Select MLPs

Company	2011	2012	2013	2014	Annual Distribution Growth Rate
Diversified 1	\$3.58	\$3.58	\$3.69	\$3.84	2.4%
Diversified 2	\$2.44	\$2.56	\$2.72	\$2.88	6.8%
Diversified 3	\$4.61	\$5.00	\$5.40	\$5.72	7.2%
Midstream 1	\$2.55	\$2.70	\$2.89	\$3.09	6.7%
Midstream 2	\$2.86	\$3.25	\$3.58	\$3.93	11.2%
Midstream 3	\$2.37	\$2.69	\$3.09	\$3.40	12.9%
Upstream 1	\$1.71	\$1.965	\$2.07	\$2.21	6.3%
Upstream 2	\$2.73	\$2.93	\$3.12	\$3.36	6.9%
Upstream 3	\$1.72	\$1.82	\$1.82	\$1.90	3.2%

The energy MLP sector has finally entered a price correction. The sell off is occurring at the same time the general market has been in correction. We think the energy MLP correction is being driven by different forces than those driving the general market correction.

Energy MLPs have used their recent high prices to sell new stock and bonds into the market place. This raising of new funds is dilutive. The companies raise new money to finance acquisitions that can lead to higher distributions. Almost all of the energy MLPs we follow were involved in a new offering of stock, a placement of bonds, or announced new acquisitions. In our opinion, much of the correction we've seen is merely the effect of the dilution effect of new assets being raised.

However, seven of the nine energy MLPs we follow raised their distributions in the last dividend cycle. The potential for rising dividends is our real motive for investing in this sector. Rising distributions help offset rising living expenses, and help temper price corrections like the one we're experiencing now.

The data above are the forecasted distribution rates for the energy MLPs we follow. This data is gleaned from formal research reports on the partnerships from Raymond James, or its research partner Barclay's Bank and Credit Suisse First Boston (CSFB).

Distributions not guaranteed.

The John Deere Indicator

By Leonard A. Weiss & Lowell J. Weiss

In the late 1950's General Motors used an ad campaign that stated "As goes General Motors, so goes the nation's economy". This phrase was a restatement of then GM President Charles Wilson's testimony to Congress and was used to generally describe the idea that GM was an indicator of health for the overall economy. While that may have been true at the time, and for quite a while after the 50's, perhaps a new company has taken the mantle as the mirror of the country's economy.

To understand why another company may be a better indicator, it is important to know why GM was used in the past. When the American economy was the overwhelming producer of globally consumed goods, GM was considered to be the greatest example of the power of Capitalism. Additionally, GM could be deemed the company best able to provide examples of this power – both directly and indirectly.

General Motors directly impacted the economy in many ways. It employed thousands of people in all levels of employment from plant workers to executive management. The company was one of the largest consumers of natural resources across the globe at the time. It also excelled at innovating new technologies making a higher quality product at a cheaper cost a possibility.

The power of GM was not only shown in these ways. Whole industries were created to provide the company with the materials needed. To produce cars, great amounts of steel and parts were needed. Opportunistic businesses adapted to fill the need. There was even a large economic impact for those who would provide food and entertainment for company employees near plants and truck or rail stops.

General Motors utilized vertical and horizontal integration to provide the greatest opportunities for wealth creation. This wealth creation was not just at the company level. Personal wealth creation was made possible for employees of all levels, which drew the best available labor.

As the economy has shifted and changed over time, it can be argued that a new company has taken the mantle as the overall economy indicator. That company is John Deere. There are great similarities between the General Motors of the 50s and 60s and

John Deere. Deere, a major innovator of new product and technology, pays extremely competitive wages. This provides wealth creation opportunities similar to that of post-war GM. Additionally, John Deere has similar direct and indirect employment characteristics. The effects of John Deere's overall economic impact may be harder to quantify due to the global nature of the company. However plenty of employment is created by the production and distribution of John Deere's products.

General Motors and John Deere have an even more important similarity in their business models. The biggest commonality between the two is the idea of planned obsolescence. Consumers will certainly need to purchase replacement products over time. Additionally, routine maintenance becomes one of the indirect industries created by the overall corporation. This justified new capital expenditures which provide organic growth.

As the world population grows each year so does the need for food. Without companies like John Deere, the planting and harvesting of food in such large quantities would likely be impossible. The results would be catastrophic. But it is this need to produce and distribute food which drives demand. This demand makes planting and harvesting equipment, along with construction equipment, as intrinsically important to today's global economy as General Motors was to the U.S. domestic economy in during the majority of the 20th century.

In future editions, The Weiss Report will use The John Deere Indicator as an analytic tool. This tool will provide a better understanding of the overall global economy. This is true because as has been shown, as goes John Deere, so goes the global economy.

Fed Says U.S. Wealth Fell 38.8% in **2007-2010 on Housing**

By: Jeff Kearns - Bloomberg

The financial crisis wiped out 18 years of gains for the median U.S. household net worth, with a 38.8 percent plunge from 2007 to 2010 that was led by the collapse in home prices, a Federal Reserve study showed.

Median net worth declined to \$77,300 in 2010, the lowest since 1992, from \$126,400 in 2007, the Fed said in its Survey of Consumer Finances. Mean net worth fell 14.7 percent to a nine-year low of \$498,800 from \$584,600, the central bank said yesterday in Washington. Almost every demographic group experienced losses, which may hurt retirement prospects for middle-income families, Fed economists said in the report.

"The impact has been a massive destruction of wealth all across the board," said Lance Roberts, who oversees \$500 million as chief executive officer of Streettalk Advisors LLC in Houston. "What you see is an economy that's really very, very stressed for the bottom 60 to 70 percent of the population that's struggling just to make ends meet."

The declines in household wealth in the course of the longest and deepest recession since the Great Depression have held back the consumer spending that makes up about 70 percent of the economy. Fed policy makers led by Chairman Ben S. Bernanke meet next week to consider whether the central bank needs to add to its record stimulus after employment grew at the slowest pace in a year in May.

Zero Rates:

The Fed has already taken unprecedented steps to boost the economy as it battled the 18-month recession that ended in June 2009, cutting its key interest rate almost to zero and purchasing \$2.3 trillion in debt to lower long-term borrowing costs. Even so, the jobless rate has stayed above 8 percent since February 2009, compared with the central bank's long-range goal of 4.9 percent to 6 percent.

"Although declines in the values of financial assets or business were important factors for some families, the decreases in median net worth appear to have been driven most strongly by a broad collapse in house prices," the Fed economists wrote.

The S&P/Case-Shiller U.S. Home Price Index fell 23 percent in the three years through December 2010. The Standard & Poor's 500 Index (SPX) lost 14 percent in the same period.

The proportion of families with retirement accounts decreased 2.6 points to 50.4 percent during the period, wiping out much of the 3.1 percentage-point increase over the prior three years, the report said.

Retirement Setback:

"The most noticeable drops in ownership were among families in the middle-income, middle-wealth, and middle-age groups," the economists said. "Retirement accounts had been growing in importance as a supplement to Social Security and other types of retirement income, and the decrease in ownership in the past three years may represent a setback."

Fed economists conduct the surveys every three years to produce a snapshot of household balance sheets, pensions, income, and demographics that's more detailed than broader reports about the economy. The surveys allow comparisons over time, with a consistent methodology since 1989.

The U.S. added 69,000 jobs last month even as the Fed maintained record stimulus. The economy grew more slowly in the first quarter than previously estimated, expanding at a 1.9 percent annual rate, down from a 2.2 percent prior estimate.

Minutes of the last FOMC meeting April 24-25 showed policy makers said a loss of momentum in growth or increased risks to their economic outlook could warrant additional action to preserve the recovery. Fed policy makers are scheduled to meet June 19-20 in Washington.

Wealthiest Families:

Declines in average income were greatest in the wealthiest 10 percent families and for higher education or wealth groups, the survey showed. The housing slump and financial crisis also boosted the dependence on wages as a percentile of net worth for the wealthiest 10 percent.

The top 10 percent by wealth got 55.8 percent of their pre-tax family income from wages in 2010, up from 46.2 percent in 2007, the survey found. The portion earned from capital gains plunged to 2.3 percent from 14.4 percent.

Debt as a share of family assets rose to 16.4 percent from 14.8 percent as asset values declined, the Fed said. For those households with debt in 2010, the median value of debt was unchanged from 2007, while the share of families having debt fell to about 75 percent from 77 percent. Debt payments more than 60 days overdue were reported by 10.8 percent of families in 2010, up from 7.1 percent in the prior survey.

Debt Burdens:

"Measures of debt payments relative to income might have been expected to increase," Fed economists wrote. "In fact, total payments relative to total income increased only slightly, and the median of payments relative to income among families with debt fell after having risen between 2004 and 2007. The share of families with high payments relative to their incomes also fell after rising substantially between 2001 and 2007."

The survey was compiled by Fed economists Jesse Bricker, Arthur Kennickell, Kevin Moore and John Sabelhaus in Washington. All dollar figures are expressed in 2010 dollars.