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Dear Client,

It took nearly 5 ½ years, but the S&P 500 Index[1] recently surpassed the all-time closing high it set back in the fall of 2007. It has been a long, hard road, but the S&P 500 has gained 132% since bottoming out in March 2009. To rehash an old cliché, "we've come a long way, baby."

These gains came despite the automatic federal budget cuts that took effect after our leaders in Washington, D.C. failed to reach an agreement to avoid going over the "fiscal cliff." Neither government budget cuts, higher federal income tax rates, nor rising gasoline prices have been able to derail this stock market rally. This has spurred individual investors—many of whom sat out much of the stock market rally—to start tiptoeing back into stocks. As evidence, inflows into stock mutual funds have begun to outpace redemptions again.

The stock market's recent gains have come against a backdrop of a gradually improving economy in the U.S., led by a resurgent housing market. Home prices rose 8.1 percent year-over-year in January, the largest gain since 2006. Sales of existing homes hit a three-year high in February and permits for new-home construction surged to the highest levels since June 2008.

Meanwhile, consumer discretionary spending and business spending on durable goods have been relatively strong over the past several months. As a result, the economy added 216,000 non-farm jobs in February and the unemployment rate fell from 7.9 percent to 7.7 percent. Add it all up, and it appears that the U.S. economy may finally be gaining some real momentum.

Of course, history has shown that when individual investors start gaining confidence, that's often an indicator that stocks are poised for a sell-off. Over the past three years, we have seen stocks rally in the first quarter and then decline during the second or third quarters. In fact, the S&P 500 Index has experienced 13 pullbacks of 5 percent or more since March 2009. The average pullback has been 8.7 percent and has occurred over a period of 21 days.

Does that mean this pattern will be repeated this year? Neither I, nor any of the talking heads you may hear expounding their views on TV, knows for sure. What I do know, however, is that the U.S. economy has demonstrated resilience over the past several years. Despite the headlines coming out of Europe and Cyprus, saber rattling from North Korea, and the ever-present potential for some unanticipated threat, our economy is growing. And if our political leaders can reach consensus on our budget and debt challenges, the outlook looks even better.

This does not mean it's time to go "all-in" on stocks. As always, I believe that diversifying your portfolio among different asset classes and sectors is the best strategy for seeking steady gains over the long term with reduced volatility.

With the welcome arrival of spring, I hope you enjoy the opportunity to get outside with family and friends. In the meantime, if you have any questions about your investment strategy, please don't hesitate to call me.

Sincerely,

Mike

Mike Ovshak

CFP®

[1] All indices are unmanaged and investors cannot invest directly into an index. Past performance is not indicative of future results. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. Diversification does not assure a profit or protect against a loss in declining markets.