



## First Quarter 2013

### News You Can Use

Have you had any major changes in your life? Divorce, marriage, new baby, loss of a loved one? An often overlooked change that needs to be made is to our beneficiaries. Make sure the beneficiaries of your assets, life insurance, etc are up to date and accurate. While you are reviewing your beneficiaries also make sure your life insurance is still an adequate amount to protect your family from financial disaster should the unfortunate happen. (From Carl McClurg of Complete Wealth Strategies)

### Review and Outlook

The first quarter of 2013 treated U. S. stock market investors kindly. The DJIA rose 11.3%, the Standard & Poor's 500 rose 10.0%, and the NASDAQ Composite rose 8.2%. We have reached a critical threshold, with both the DJIA and the S&P 500 rising to record levels. (The NASDAQ Composite is nowhere near its all time record). Should investors be concerned about a major decline in stock prices?

In terms of valuation – how much stock investors are paying for the earnings potential of companies -- the answer is “no”. Stocks are not unduly cheap, nor are they excessively expensive. Currently, the P/E on the S&P 500, which represents between 75 and 80% of the U.S. stock market, is at 13.5. One can interpret this number to mean that it will take 13.5 years for the total earnings of companies over that period to equal what investors are paying today for stocks (if they invest in the Index, and earnings remain level for that entire period, rather than rising or falling). In contrast, in 2007, the last time that the S&P reached a record, the P/E was 23.2. Clearly, it is far better to receive a return on your capital in 13.5 years than 23.2!

Despite the drama in Cyprus, investors seem to have come to the conclusion that the world will not end, and the stock market will not fall to \$0. There are always unknowns that can rock an

investor's world. I typically find these periods of turmoil to be opportunities to pick up bargains. The question becomes one of timing: when is the optimal time to start buying.

From a longer-term perspective, we feel that this is as good a time as any to buy stocks. However, we have to be careful in our investment selections. It is hard to find exceptional value in this market.

Near term, we are entering that period of the year when warm weather brings vacation season, which typically coincides with potential weakness in stock prices. "Sell in May and go away" is an old stock market adage that we need to be aware of. So we may find an opportunity to pick up some bargains based on seasonal weakness.

The deluge of annual reports and proxies has begun in earnest. I have been carefully reviewing these documents as they arrive in my mailbox to determine if some of the companies that clients own may be sale candidates. Companies that I have recently sold are indicated on the Focus and Holdings list.

I have also been scrutinizing Board affiliations for potential new stock ideas. There are several areas of interest that deserve additional consideration: (1.) companies benefiting from Obamacare, (2.) Medical -- where the company operates in specialty area and may be taken over by a bigger company with which it is affiliated, or where the company has developed an emerging technology with few or no competitors, (3.) Technology -- cases in which the company operates in a specialty area and may be taken over by a bigger company with which it is affiliated, 4. Food and Beverages—companies that offer steady cash flows that activist investors may be interested in, in order to create value by splitting up the company and/or piling on debt (e.g. PepsiCo, HJ Heinz) and (5.) companies benefiting from an improving economy.

The great rotation from yield-oriented to more speculative stocks gathered steam in 2012, and 2013 looks like a continuation of that trend. The areas of interest that I have identified come with greater risk than the yield-oriented stocks that have been staples in client accounts, particularly in the accounts of retirees who are depending on a steady stream of income.

This is not the time to give up on income-oriented stocks. Many clients are depending on that income, so selling those in favor of companies that pay little or nothing in dividends is a treacherous strategy, particularly if the stock market reverses itself and prices start falling.

We can nevertheless take cash that is on the sidelines, or sell a stock that has appreciated greatly in value and is no longer a bargain, and invest in a few outstanding growth opportunities. Wholesale changes are usually not wise, but we can shift our strategy slightly when market conditions permit.

The outperformance of value stocks over growth stocks persists. But the high-quality, high-dividend-yield stocks have not been in the lead over the last several months. Instead, the very

lowest quality stocks (those that survived the recession) and were selling at “going-out-of-business” levels, have performed quite well. This is not to say that we should have been placing bets on the low quality stocks. Rather, this is a typical pattern that one sees when economies start to recover, as oversold weaklings bounce back to more normal values.

I maintain a “watch list” of stocks that I currently do not own in client accounts but might be suitable when the time is right. As stocks that are fully-valued are sold, the proceeds may well end up in those stocks on the “watch list”, or the proceeds could be redeployed into stocks that I already hold in other accounts.

Internationally, the dollar was strong, and so were international stock markets. The U. K. market rose 8.7%, the German market rose 2.5% and the Nikkei Dow rose 19.3%. But after factoring in currency fluctuations, the U.K. market’s return turned into a loss of 4.3%, the German market declined 0.5% and the Nikkei Dow’s gain was trimmed to 9.9%.

Gold declined by 3.9%, but oil rose 5.9% and natural gas rose 19.1%. Companies that use natural gas as one raw material in their products, or which use natural gas as a primary fuel, will find their profits crimped (for example: chemical companies, fertilizer makers such as CF Industries, certain Electric Utility companies). But the profit squeeze might be mitigated by the use of hedging strategies (basically buying natural gas in advance).

Bonds may have started a period of long decline. Long term bonds declined 1.85%, and the broader bond market (the Barclay’s Aggregate) declined 0.13%. In contrast, intermediate term bonds (those in the 2-10 year range or so), rose 0.57%. Federal Reserve Chair Ben Bernanke has indicated that he may keep interest rates low until 2014 or 2015. But as we saw in the 1980’s and 1990’s, the so-called “bond vigilantes”, whose economic firepower dwarfs that of the Federal Reserve Board, may take interest rate levels into their own hands and begin nudging interest rates higher (and bond values lower). The Federal Reserve can target short term interest rates, but interest rates with maturities beyond about a 2 year period are often in the hands of others.

## Investment Strategy

- We are cautious about the fixed-income market, and prefer to buy short term bonds to avoid big declines in bond values should interest rates rise. *In fact, in most cases, we are keeping cash in money market funds, rather than in short term U.S. Treasury Notes, to preserve investment flexibility.* We will emphasize high-quality bonds (A-rated or better) when buying bonds for clients is appropriate. We have in the past purchased preferred stocks for income on a limited basis.
- While we may buy bonds from time to time, our emphasis will be on finding quality stocks that will provide a steady, or even rising, stream of dividends. We will be on the lookout for companies with strong financial strength and the ability to raise their dividends.
- Occasionally, there may be interesting stocks that are either undervalued or have huge long-term growth potential that we purchase to boost clients' investment returns but may pay no dividends, or almost no dividends.
- We believe that a long-term strategic position in Materials and Energy stocks is appropriate. We are keeping an eye on China and other emerging markets for signs of economic weakness, as well as commodity prices.
- We believe that the recovery in stock prices will generally be tied to improvements in corporate earnings; and there will be bumps in the road in a generally, though modestly, rising stock market.
- Smaller companies typically achieve better returns than the more established companies when economies recover from recessions. *This recovery has been no exception to that rule.*
- We believe that this is a stock-picker's market that favors active management of sector weights and is unfavorable to index funds.
- We will sell stocks when (1.) they appear to be overvalued, (2.) substitution of a stock in one industry sector for another makes sense in order to de-emphasize industry sectors in which there may be fundamental weakness and (3) when it makes sense to increase cash or bonds in a client's portfolio and to de-emphasize stocks.
- In 2012, we saw the beginnings of a reversal of fortune, with high-yielding stocks no longer outperforming, and indeed, starting to trail the market averages. Too, recent tax law changes have reduced the attractiveness of dividends versus capital gains. Investors with high income requirements should come to expect that we may be in for a period of underperformance in stocks paying above-average dividends. Still, investors should consider their goals, first and foremost, and not try to chase market returns, which are notoriously volatile.

## Disclosure of Current Individual Stock Holdings

Individual stock holdings in accounts in which I have a direct beneficial interest is noted below. Stocks in *italics* are held in the accounts of a family member. The activity is current as of April 3, 2013.

### Holdings:

*A T & T Inc.*

*Altria Group, Inc.*

*Annaly Capital Mgmt.*

*Apache Corporation*

*Autozone*

*Bank of America*

*Baxter International, Inc.*

*Berkshire Hathaway Cl. B.*

*CVX Corporation*

*Canadian Natural Resources*

*Canadian Pacific Railway Ltd.*

*Chevron Corporation.*

*Cisco Systems, Inc.*

*Cullen Frost Bankshares*

*Cummins, Inc.*

*Dominion Resources Inc.*

*Duke Energy Corp.*

*Ford Motor Company*

*General Mills*

*Intuitive Surgical*

*Kansas City Southern*

*Kimberly-Clark Corp.*

*Lincoln National Corp.*

*Mac-Cali Realty Corp.*

*McDonald's*

*Merck & Co. Inc.*

*MetLife, Inc.*

*Newmont Mining Corp.*

*Norfolk Southern Corp.*

*Patriot Coal Corp.*

*PepsiCo Incorporated*

*PetSmart*

*Pfizer Incorporated.*

*Philip Morris International, Inc.*

*Potash Corp.*

*Qualcomm, Inc.*

*Range Resources*  
*Rio Tinto PLC Spon. ADR*  
*Schlumberger Ltd.*  
*Spectra Energy (Added)*  
*Target Corporation*  
*The TJX Companies, Inc.*  
*Verizon Communications*  
*Wells Fargo & Co., Inc.*  
*Whiting Petroleum Corp.*  
*Note: Bought Ford Motor*  
*Company, Trimmed Canadian*  
*Pacific Railway, Sold Staples, Inc.*

**Offer of Form ADV:** As always, clients are welcome to request our form ADV, Parts 2A and 2B.

**Anita L. Eisthen, CFA, CPA**

**Phone: [\(513\) 755-7857](tel:5137557857)**

**April 3, 2013**

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**Labrador Investments, LLC**  
**Financial Market Trends**  
**March 31, 2013**

<b>U.S. Treasury Yields</b>	<b>12/31/12</b>	<b>3/31/13</b>	<b>1st Qtr. Change</b>	<b>12/31/2012</b>	<b>Yr.-to-Date Change</b>
90 day T-Bill	0.05%	0.71%	0.66%	0.05%	0.66%
2 Year T-Note	0.25%	0.25%	0.00%	0.25%	0.00%
10 Year T-Note	1.76%	1.85%	0.09%	1.76%	0.09%
30 Year T-Bond	2.95%	3.10%	0.15%	2.95%	0.15%

<b>Stock Market Indices</b>	<b>12/31/12</b>	<b>3/31/13</b>	<b>1st Qtr. Change</b>	<b>12/31/2012</b>	<b>Yr.-to-Date Change</b>
Dow Jones Industrial Average	13104.14	14578.54	11.3%	13104.14	11.3%
Standard & Poor's 500	1426.19	1569.19	10.0%	1426.19	10.0%
Nasdaq Composite	3019.51	3267.52	8.2%	3019.51	8.2%
Dow Jones Utility Index	453.09	508.4	12.2%	453.09	12.2%

<b>Bonds Market Indices</b>	<b>Yr.-to-Date Change</b>
Barclays Corporate Intermediate	0.57%
Barclays Corporate Long Term	-1.85%
Barclays Aggregate	-0.13%

<b>Foreign Stock Markets</b>	<b>12/31/12</b>	<b>3/31/13</b>	<b>1st Qtr. Change</b>	<b>1st Qtr. Currency Adjusted</b>	<b>Year To Date</b>
FTSE100 (United Kingdom)	5897.81	6411.74	8.7%	-4.2%	8.7%
DAX (Germany)	7612.39	7795.31	2.4%	-0.5%	2.4%
Nikkei Dow (Japan)	10395.18	12397.91	19.3%	9.9%	19.3%

<b>Foreign Currencies</b>	<b>12/31/12</b>	<b>3/31/13</b>	<b>1st Qtr. Dollar's Perf.</b>	<b>12/31/2012</b>	<b>Year To Date</b>
British Pound (\$/Pound)	1.6242	1.5204	6.8%	1.6242	6.8%
Euro (\$/Euro)	1.3196	1.2818	2.9%	1.3196	2.9%
Japanese Yen (Yen/\$)	86.765	94.24	8.6%	86.765	8.6%

<b>Commodities</b>	<b>12/31/12</b>	<b>3/31/13</b>	<b>1st Qtr. % Change</b>	<b>12/31/2012</b>	<b>Year To Date</b>
Gold Spot Price/Oz.	\$ 1,667.48	\$ 1,601.62	-3.9%	\$ 1,667.48	-3.9%
West Texas Int. Crude Oil/bbl	\$ 91.82	\$ 97.23	5.9%	\$ 91.82	5.9%
Natural Gas	\$ 3.40	\$ 4.06	19.1%	\$ 3.40	19.1%

**Labrador Investments, LLC**  
**Focus and Holdings List**  
**March 31, 2013**

<b>NAME</b>	<b>12/31/12</b>	<b>12/31/12</b>	<b>% CHANGE</b>	<b>YIELD</b>
CF Industries	\$ 203.16	\$ 190.37	-6.3%	0.8%
E. I. du Pont de Nemours and Company	\$ 44.98	\$ 49.16	9.3%	3.5%
Freeport-McMoRan Copper & Gold Inc.	\$ 34.20	\$ 33.10	-3.2%	3.8%
Nucor Corporation	\$ 43.16	\$ 46.15	6.9%	3.2%
Praxair Inc.	\$ 109.45	\$ 111.54	1.9%	2.2%
Rio Tinto plc	\$ 58.09	\$ 47.08	-19.0%	4.0%
Weyerhaeuser Co.	\$ 27.82	\$ 31.38	12.8%	2.2%
CSX Corp.	\$ 19.73	\$ 24.63	24.8%	2.3%
Eaton Corporation	\$ 54.18	\$ 61.25	13.0%	2.7%
Fluor Corporation	\$ 58.74	\$ 66.33		1.0%
General Electric Company	\$ 20.99	\$ 23.12	10.1%	3.3%
Honeywell International Inc.	\$ 63.47	\$ 75.35	18.7%	2.2%
Illinois Tool Works Inc.	\$ 60.81	\$ 60.94	0.2%	2.4%
Kansas City Southern	\$ 83.48	\$ 110.90	32.8%	0.8%
The Manitowoc Company, Inc.	\$ 15.68	\$ 20.56	31.1%	0.4%
Norfolk Southern Corp.	\$ 61.84	\$ 77.08	24.6%	2.6%
Union Pacific Corporation	\$ 125.72	\$ 142.41	13.3%	1.9%
AT&T, Inc.	\$ 33.71	\$ 36.69	8.8%	4.9%
Frontier Communications Corporation	\$ 4.28	\$ 3.99	-6.8%	10.0%
Verizon Communications Inc.	\$ 43.27	\$ 49.15	13.6%	4.2%
Advance Auto Parts	\$ 72.35	\$ 82.65	14.2%	0.3%
Darden Restaurants, Inc.	\$ 45.07	\$ 51.68	14.7%	4.0%
Ford Motor Company	\$ 12.95	\$ 13.15	1.5%	3.0%
Frisch's Restaurants Inc.	\$ 18.50	\$ 17.94	-3.0%	3.6%
The Home Depot, Inc.	\$ 61.85	\$ 69.78	12.8%	2.2%
Leggett & Platt, Incorporated	\$ 27.22	\$ 33.78	24.1%	3.4%
Lowe's Companies Inc.	\$ 35.52	\$ 37.92	6.8%	1.7%
McDonald's Corp.	\$ 88.21	\$ 99.69	13.0%	3.1%
Target Corp.	\$ 59.17	\$ 68.45	15.7%	2.1%
Tractor Supply	\$ 88.36	\$ 104.13		0.8%
V.F. Corporation	\$ 150.97	\$ 167.75	11.1%	2.1%
Wal-Mart Stores Inc.	\$ 68.23	\$ 74.83	9.7%	2.5%
Walgreen Co.	\$ 37.01	\$ 47.68	28.8%	2.4%
Altria Group Inc.	\$ 31.44	\$ 34.39	9.4%	5.2%
The Coca-Cola Company	\$ 36.25	\$ 40.44	11.6%	2.8%
Flowers Foods, Inc.	\$ 23.27	\$ 32.94	41.6%	2.0%
The J. M. Smucker Company	\$ 86.24	\$ 99.16	15.0%	2.2%
Kellogg Company	\$ 55.85	\$ 64.43	15.4%	2.8%
Kimberly-Clark Corporation	\$ 84.43	\$ 97.98	16.0%	3.3%
Pepsico, Inc.	\$ 68.43	\$ 79.11	15.6%	2.7%
Philip Morris International, Inc.	\$ 83.64	\$ 92.71	10.8%	3.7%
Procter & Gamble Co.	\$ 67.89	\$ 77.06	13.5%	2.9%
Reynolds American Inc.	\$ 41.43	\$ 44.49	7.4%	5.4%
BP plc	\$ 41.64	\$ 42.35	1.7%	5.1%
Canadian Natural Resources Limited	\$ 28.87	\$ 32.13	11.3%	1.5%
Cenovus Energy Inc.	\$ 33.54	\$ 30.99	-7.6%	3.0%
Chevron Corporation	\$ 108.14	\$ 118.82	9.9%	3.0%
Encana Corporation	\$ 19.76	\$ 19.46	-1.5%	4.2%



Exxon Mobil Corporation	\$ 86.55	\$ 90.11	4.1%	2.6%
National Oilwell Varco, Inc.	\$ 68.35	\$ 70.75	3.5%	0.8%
Range Resources Corporation	\$ 62.83	\$ 81.04	29.0%	0.2%
Stone Energy Corp.	\$ 20.52	\$ 21.75	6.0%	
American Express Company	\$ 57.48	\$ 67.46	17.4%	1.2%
Annaly Capital Management, Inc.	\$ 14.04	\$ 15.89	13.2%	11.2%
Cullen/Frost Bankers, Inc.	\$ 54.27	\$ 62.53	15.2%	3.1%
Fifth Third Bank	\$ 15.20	\$ 16.31	7.3%	2.7%
Liberty Property Trust	\$ 35.79	\$ 39.75	11.1%	4.8%
Mac-Cali Realty, Inc.	\$ 26.11	\$ 28.61	9.6%	6.3%
Sun Life	\$ 26.53	\$ 27.29	2.9%	5.3%
U.S. Bancorp	\$ 31.94	\$ 33.93	6.2%	2.3%
Vornado Realty Trust	\$ 80.08	\$ 83.64	4.4%	3.5%
Wells Fargo & Company	\$ 34.18	\$ 36.99	8.2%	2.7%
Abbott Laboratories	\$ 65.50	\$ 35.32	-46.1%	1.7%
AbbVie Inc.	New	\$ 40.78		4.1%
Amgen Inc.	\$ 86.20	\$ 102.51	18.9%	1.9%
Baxter International Inc.	\$ 66.66	\$ 72.64	9.0%	2.5%
Bristol-Myers Squibb Company	\$ 32.59	\$ 41.19	26.4%	3.4%
Hospira Inc.	\$ 31.24	\$ 32.83	5.1%	
Intuitive Surgical, Inc.	\$ 490.37	\$ 491.19	0.2%	
Johnson & Johnson	\$ 70.10	\$ 81.53	16.3%	3.0%
Eli Lilly & Co.	\$ 49.32	\$ 56.79	15.1%	3.5%
Medtronic, Inc.	\$ 41.02	\$ 46.96	14.5%	2.3%
Merck & Co. Inc.	\$ 40.94	\$ 44.20	8.0%	3.9%
Meridian Diagnostics	\$ 20.25	\$ 22.82	12.7%	3.3%
Pfizer Inc.	\$ 25.08	\$ 28.86	15.1%	3.4%
St. Jude Medical Inc.	\$ 36.14	\$ 40.44	11.9%	2.4%
Teva Pharmaceutical Industries Limited	\$ 37.34	\$ 39.68	6.3%	2.7%
Vertex Pharmaceuticals	\$ 41.90	\$ 54.97	31.2%	
Zimmer Holdings	\$ 66.66	\$ 75.22	12.8%	1.1%
Cisco Systems, Inc.	\$ 19.65	\$ 20.90	6.4%	2.7%
Intel Corporation	\$ 20.62	\$ 21.83	5.9%	4.2%
Itron, Inc.	\$ 44.55	\$ 46.40	4.2%	
Microsoft Corporation	\$ 26.71	\$ 28.60	7.1%	3.2%
MTS Systems Corp.	New	\$ 58.15		2.1%
Texas Instruments Inc.	\$ 30.89	\$ 35.48	14.9%	3.2%
American Electric Power Co., Inc.	\$ 42.68	\$ 48.63	13.9%	3.9%
Dominion Resources, Inc.	\$ 51.80	\$ 58.18	12.3%	4.0%
Duke Energy Corporation	\$ 63.80	\$ 72.59	13.8%	4.3%
Entergy Corporation	\$ 63.75	\$ 63.24	-0.8%	5.3%
Exelon Corporation	\$ 29.74	\$ 34.48	15.9%	6.2%
NextEra Energy, Inc.	\$ 69.19	\$ 77.68	12.3%	3.5%
Spectra Energy Corp.	\$ 27.38	\$ 30.75	12.3%	4.1%

**Notes:**

Added: AbbVie (Spinoff of Abbott Laboratories), MTS Systems Corp.

Deleted: Cisco Systems (except in one account with tax issues)  
ConAgra Foods, Inc., Corning, Inc., Quest Diagnostics, inc., Staples, Inc., Sysco Corp.

Excludes certain speculative names purchased by one client.