Second Quarter 2013

Review and Outlook

Capital market trends in the second quarter of 2013 remained on the first quarter's trajectory. Price increases over the three month period in stocks were modest, but commodity and bond price changes were dramatic. The price of gold tumbled a record 28.5%, while oil rose 5.2% and natural gas rose 4.6%. Long term bonds *declined* 7.56%, and the broader bond market (the Barclay's Aggregate) *declined* 1.84%. Intermediate term bonds (those in the 2-10 year range or so), *declined* 2.46%. When gold's price is weak, this is usually associated with a strong U.S. dollar. And the weakness in the bond market is a taste of what investors should expect for several years to come.

June was the first month this year in which stock prices declined, and in 75% of the trading days, the stock market rose or fell more than 100 points. Of course, 100 points is not what it used to be in percentage terms, now that the DJIA is hovering near 15000.

The DJIA rose 2.3% in the second quarter. The Standard & Poor's 500 rose 2.4%, and the NASDAQ Composite rose 4.2%. The Dow Jones Utility Average *declined* 4.2%. Higher-yielding stocks (including Utilities) have not performed as well recently, both in absolute terms as well as relative to other stocks (those that pay little or no dividends, and those that pay dividends that are not considered to be overly-rich).

Internationally, the dollar was mixed, and so were international stock markets. The U. K. market *fell* 3.0%, the German market rose 0.6% and the Nikkei Dow rose 14.9%. But after factoring in currency fluctuations, the U.K. market's remained the same, the German market *declined* 0.5% and the Nikkei Dow's gain was trimmed to 9.9%.

China's growth rate appears to be declining, and is a source of worry to investors. Egypt's recent bloodless coup has put upward pressure on oil prices of late.

Summer brings the vacation season, in which trading volume declines, and a choppier stock market with larger swings in intraday pricing emerges. This is a microcosm for what I believe will be ongoing choppiness in stock prices for the foreseeable future. Each time the Federal Reserve Board ("the Fed") tightens monetary policy by reducing its investments in bonds or raising interest rates, we probably will see softness in the stock market. Witness the recent multi-day declines after Ben Bernanke mentioned in late May that the Fed was thinking about reducing its bond purchases. Countering this trend will be corporate earnings increases. The trend in stock prices will be determined by a tug of war between rising interest rates and corporate earnings increases.

Domestic Stock and Bond Market Outlook

For years, stock and bond prices have been distorted, as the Federal Reserve Board has manipulated interest rates in an historic fashion. This created a very unusual environment, in which investors seeking income were forced to put money in dividend-paying stocks and avoid the bond market.

Bond prices have begun their long descent, as the Fed recently announced its intention to withdraw its unusually-large amount of intervention to keep interest rates low (and bond prices high).

Ben Bernanke, the Fed chair, threw the stock and bond markets into turmoil when he mentioned a few weeks ago that the Fed would be reducing the amount of bonds that it purchases as economic conditions improves. After the negative reaction, various members of the Fed went out of their way to walk back those statements to reassure investors that changes were not imminent.

Stocks and bonds vie against each other for investor money. As bond prices decline and interest rates rise, bonds become more attractive investments. Conservative investors looking for safety and income prefer bonds. It has been years since bonds have been a viable alternative for income-oriented investors. This has created distortions that have produced unusual stock valuations.

Normally, stocks paying high dividends and with lower growth rates sport lower P/E multiples, and stocks with higher growth rates that pay little or no dividends trade at higher P/E multiples. The stocks in the middle trade at medium P/E multiples. During this unprecedented period of Fed intervention, stocks paying high dividends have been very expensive relative to the medium-dividend payers and low/no dividend payers. As the Fed unwinds its intervention, I expect that higher-dividend payers will not perform well absolutely or relatively to other stocks.

What many investors do not realize is that both bonds and stocks trade on a similar basis: current prices depend on expected future cash flows, and their timing. Bond prices are very mechanically-determined for the most part. Other than increases and decreases in credit quality, a bond's price at any moment is based on the promised interest income and the maturity date of the bond, with changes in current interest rates influencing its price until it matures. Bonds with little or no coupon (interest) payments and that have a long time to maturity will experience volatile price changes as the general level of interest rates rises and falls. Bonds with higher coupon payments and shorter times to maturity will tend to have less volatile prices changes as the general level of interest rates rises and falls. Simply put: cash today is worth more than cash tomorrow, which is why bonds with cash flows nearer to today do not suffer as much when interest rates rise.

The same is true for stocks, with a twist: since common stock investors receive only what is left after all creditors are paid, cash flows associated with stocks (dividends and price increases) are far more uncertain. This uncertainty means that stock prices are subject to more price swings – due to unexpected changes in earnings trends, as well as changes in investor psychology – that bonds typically do not suffer. (Actually, bond prices are affected by credit quality somewhat. As a company's future earnings prospects improve or deteriorate, bond prices can benefit or suffer. But these changes are normally less dramatic than those affecting stock prices, absent a high risk of default.)

Normally, stocks with higher-than-average dividends experience lower volatility in stock prices, and stocks with little or no dividends suffer from higher volatility. You can mentally segment the stock market into three categories: high dividend payers, medium dividend payers and low/no dividend payers. Think of these as the papa bear, momma bear and baby bear segments of the stock market.

Based on economic and interest rate forecasts, the behavior of each of the three categories of stocks tend to behave in predictable patterns. Stocks with higher-than-average yields tend to trade like bond substitutes, since investors will gravitate to or from these stocks depending on the trend and level of bond interest rates. So as bond yields rise, these "papa bear" stocks suffer as investors sell these stocks to buy bonds.

"Mama bear" stocks suffer because investors prefer cash today rather than cash tomorrow. They are being priced similarly to bonds that pay no interest until maturity (which are sold at a discount and mature at par value). In times of interest rate increases, stocks with little or no dividend yield will tend to suffer more when interest rates rise because the cash that investors expect to receive (when they sell the stocks, in the case of stocks that pay no dividend) is not worth as much since investors prefer more cash now vs. cash later.

In periods of rising interest rates, the "baby bear" stocks – those that do not pay overly high or overly low dividends) -- tend to be the sweet spot in terms of investment performance.

Investment Strategy

- *We watching for a reasonable entry point into the fixed-income market, and for now, prefer to buy short term bonds to avoid big declines in bond values should interest rates rise.* In fact, for many of our clients, we are keeping cash in money market funds, rather than in short term U.S. Treasury Notes, to preserve investment flexibility. *We are also keeping some cash on the sidelines as well sell stocks that we no longer want to hold, while searching for purchase candidates.*
- 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 and lower-quality bonds for income on a limited basis, but only when the risks associated with these types of securities appears reasonable*.
- 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 *for our income-oriented investors*. 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 are looking at the "baby bear" sector of the stock market for suitable stocks that may be less vulnerable to changes in bond yields.*
- We believe that a long-term strategic position in Materials and Energy stocks is appropriate. *We are keeping an eye on China and emerging markets as signs of economic weakness (in China) become increasingly evident*, as well as commodity prices.
- We believe that a rise 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.
- 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 July 3, 2013.

Holdings:
A T & T Inc.
Altria Group, Inc.
Annaly Capital Mgmt.
Apache Corporation
Bank of America
Baxter International, Inc.
Berkshire Hathaway Cl. B.
CVX Corporation
Canadian Natural Resources
Canadian Pacific Railway Ltd.
Chevron Corporation.
Cisco Systems, Inc.
Costco
Cullen Frost Bankshares
Cummins, Inc.
Dominion Resources Inc.
Duke Energy Corp.
eBay, Inc.
Enbridge, Inc.
Ford Motor Company
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 Tito PLC Spon. ADR
Schlmberger 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.

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Phone: (513) 755-7857
July 3, 2013

Labrador Investments, LLC
Financial Market Trends
June 30, 2013

U.S. Treasury Yields	3/31/13	6/30/13	2nd Qtr. Change	12/31/2012	Yr.-to-Date Change
90 day T-Bill	0.07%	0.04%	-0.03%	0.05%	-0.01%
2 Year T-Note	0.25%	0.36%	0.11%	0.25%	0.11%
10 Year T-Note	1.85%	2.49%	0.64%	1.76%	0.73%
30 Year T-Bond	3.10%	3.50%	0.40%	2.95%	0.55%

Stock Market Indices	3/31/13	6/30/13	2nd Qtr. Change	12/31/2012	Yr.-to-Date Change
Dow Jones Industrial Average	14578.54	14909.6	2.3%	13104.14	13.8%
Standard & Poor's 500	1569.19	1606.28	2.4%	1426.19	12.6%
Nasdaq Composite	3267.52	3403.25	4.2%	3019.51	12.7%
Dow Jones Utility Index	508.4	485.9	-4.4%	453.09	7.2%

Bonds Market Indices	Yr.-to-Date Change
Barclays Corporate Intermediate	-1.84%
Barclays Corporate Long Term	-7.56%
Barclays Aggregate	-2.46%

Foreign Stock Markets	3/31/13	6/30/13	2nd Qtr. Change	2nd Qtr. Currency Adjusted	Year To Date
FTSE100 (United Kingdom)	6411.74	6215.47	-3.0%	-3.0%	5.4%
DAX (Germany)	7795.31	7959.22	0.6%	-0.5%	4.6%
Nikkei Dow (Japan)	12397.91	13677.32	14.9%	9.9%	31.6%

Foreign Currencies	3/31/13	6/30/13	2nd Qtr. Dollar's Perf.	12/31/2012	Year To Date
British Pound ($/Pound)	1.5204	1.5211	0.0%	1.6242	6.8%
Euro ($/Euro)	1.2818	1.301	-1.5%	1.3196	1.4%
Japanese Yen (Yen/$)	94.24	99.15	99.2%	86.765	14.3%

Commodities	3/31/13	6/30/13	2nd Qtr. % Change	12/31/2012	Year To Date
Gold Spot Price/Oz.	$ 1,601.62	$ 1,192.00	-25.6%	$ 1,667.48	-28.5%
West Texas Int. Crude Oil/bbl	$ 97.23	$ 96.56	-0.7%	$ 91.82	5.2%
Natural Gas	$ 4.06	$ 3.56	-12.2%	$ 3.40	4.6%

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

NAME	03/31/13	06/30/13	% CHANGE	YIELD
CF Industries	$ 190.37	$ 171.50	-9.9%	0.9%
E. I. du Pont de Nemours and Company	$ 49.16	$ 52.50	6.8%	3.3%
Freeport McMoRan Copper & Gold Inc.	$ 33.10	$ 27.61	3.8%	4.5%
Nucor Corporation	$ 46.15	$ 43.32	0.0%	3.4%
Praxair Inc.	$ 111.54	$ 115.16	0.0%	2.1%
Rio Tinto plc	$ 47.08	$ 41.08	-12.7%	3.5%
Weyerhaeuser Co.	$ 31.38	$ 28.49	-9.2%	2.4%
CSX Corp.	$ 24.63	$ 23.19	-5.8%	2.4%
Eaton Corporation	$ 61.25	$ 65.81	7.4%	2.3%
Fluor Corporation	$ 66.33	$ 59.31		1.1%
General Electric Company	$ 23.12	$ 23.19	0.3%	3.3%
Honeywell International Inc.	$ 75.35	$ 79.34	5.3%	2.1%
Illinois Tool Works Inc.	$ 60.94	$ 69.17	13.5%	2.2%
Kansas City Southern	$ 110.90	$ 105.96	-4.5%	0.8%
The Manitowoc Company, Inc.	$ 20.56	$ 17.91	-12.9%	0.4%
Norfolk Southern Corp.	$ 77.08	$ 72.65	-5.7%	2.8%
Union Pacific Corporation	$ 142.41	$ 154.28	8.3%	1.8%
AT&T, Inc.	$ 36.69	$ 35.40	-3.5%	5.1%
Frontier Communications Corporation	$ 3.99	$ 4.05	1.5%	9.9%
Verizon Communications Inc.	$ 49.15	$ 50.34	2.4%	4.1%
Darden Restaurants, Inc.	$ 51.68	$ 50.48	-2.3%	4.0%
Ford Motor Company	$ 13.15	$ 15.47	17.6%	2.6%
Frisch's Restaurants Inc.	$ 17.94	$ 18.66	4.0%	3.4%
The Home Depot, Inc.	$ 69.78	$ 77.47	11.0%	1.5%
Leggett & Platt, Incorporated	$ 33.78	$ 31.09	-8.0%	3.7%
Lowe's Companies Inc.	$ 37.92	$ 40.90	7.9%	1.6%
McDonald's Corp.	$ 99.69	$ 99.00	-0.7%	3.1%
Target Corp.	$ 68.45	$ 68.86	0.6%	2.1%
Tractor Supply	$ 104.13	$ 117.55		0.7%
V.F. Corporation	$ 167.75	$ 193.06	15.1%	1.8%
Wal-Mart Stores Inc.	$ 74.83	$ 74.49	-0.5%	2.1%
Walgreen Co.	$ 47.68	$ 44.20	-7.3%	2.5%
Altria Group Inc.	$ 34.39	$ 34.99	1.7%	5.0%
The Coca-Cola Company	$ 40.44	$ 40.11	-0.8%	2.5%
Flowers Foods, Inc.	$ 32.94	$ 22.05	-33.1%	2.9%
The J. M. Smucker Company	$ 99.16	$ 103.15	4.0%	2.0%
Kellogg Company	$ 64.43	$ 64.23	-0.3%	2.7%
Kimberly-Clark Corporation	$ 97.98	$ 97.14	-0.9%	3.0%
Pepsico, Inc.	$ 79.11	$ 81.79	3.4%	2.6%
Philip Morris International, Inc.	$ 92.71	$ 86.62	-6.6%	3.9%
Procter & Gamble Co.	$ 77.06	$ 76.99	-0.1%	2.9%
Reynolds American Inc.	$ 44.49	$ 48.37	8.7%	4.9%
BP plc	$ 42.35	$ 41.74	-1.4%	4.6%
Canadian Natural Resources Limited	$ 32.13	$ 28.26	-12.0%	1.5%
Cenovus Energy Inc.	$ 30.99	$ 28.52	-8.0%	3.4%
Chevron Corporation	$ 118.82	$ 118.34	-0.4%	3.0%

Encana Corporation	$ 19.46	$ 16.94	-12.9%	4.7%
Exxon Mobil Corporation	$ 90.11	$ 90.35	0.3%	2.5%
National Oilwell Varco, Inc.	$ 70.75	$ 68.90	-2.6%	0.8%
Range Resources Corporation	$ 81.04	$ 77.32	-4.6%	0.2%
Stone Energy Corp.	$ 21.75	$ 22.03	1.3%	0.0%
American Express Company	$ 67.46	$ 74.76	10.8%	1.1%
Annaly Capital Management, Inc.	$ 15.89	$ 12.57	-20.9%	14.3%
Cullen/Frost Bankers, Inc.	$ 62.53	$ 66.77	6.8%	2.9%
Fifth Third Bank	$ 16.31	$ 18.05	10.7%	2.2%
Liberty Property Trust	$ 39.75	$ 36.96	-7.0%	5.1%
Mac-Cali Realty, Inc.	$ 28.61	$ 24.49	-14.4%	4.9%
Sun Life	$ 27.29	$ 27.29	0.0%	5.3%
Toronto Dominion	NA	$ 80.37		3.9%
U.S. Bancorp	$ 33.93	$ 29.62	-12.7%	4.9%
Vornado Realty Trust	$ 83.64	$ 82.85	-0.9%	3.5%
Wells Fargo & Company	$ 36.99	$ 41.27	11.6%	2.4%
Abbott Laboratories	$ 35.32	$ 34.88	-1.2%	1.6%
AbbVie Inc.	$ 40.78	$ 41.34	1.4%	3.9%
Amgen Inc.	$ 102.51	$ 98.66	-3.8%	1.9%
Baxter International Inc.	$ 72.64	$ 69.27	-4.6%	2.6%
Bristol-Myers Squibb Company	$ 41.19	$ 44.69	8.5%	3.1%
Hospira Inc.	$ 32.83	$ 38.31	16.7%	0.0%
Intuitive Surgical, Inc.	$ 491.19	$ 506.13	3.0%	0.0%
Johnson & Johnson	$ 81.53	$ 85.86	5.3%	2.8%
Eli Lilly & Co.	$ 56.79	$ 49.12	-13.5%	4.0%
Medtronic, Inc.	$ 46.96	$ 51.47	9.6%	2.0%
Merck & Co. Inc.	$ 44.20	$ 46.45	5.1%	3.7%
Meridian Diagnostics	$ 22.82	$ 21.50	-5.8%	3.5%
Pfizer Inc.	$ 28.86	$ 28.01	-2.9%	3.4%
St. Jude Medical Inc.	$ 40.44	$ 45.63	12.8%	2.0%
Teva Pharmaceutical Industries Limited	$ 39.68	$ 39.20	-1.2%	2.1%
Vertex Pharmaceuticals	$ 54.97	$ 80.06	45.6%	0.0%
Zimmer Holdings	$ 75.22	$ 74.94	-0.4%	0.0%
Cisco Systems, Inc.	$ 20.90	$ 24.33	16.4%	2.3%
Intel Corporation	$ 21.83	$ 24.23	11.0%	3.7%
Microsoft Corporation	$ 28.60	$ 34.54	20.8%	2.3%
MTS Systems Corp.	$ 54.13	$ 56.60	4.6%	2.1%
Texas Instruments Inc.	$ 35.48	$ 34.85	-1.8%	2.4%
American Electric Power Co., Inc.	$ 48.63	$ 44.78	-7.9%	4.2%
Dominion Resources, Inc.	$ 58.18	$ 56.82	-2.3%	4.0%
Duke Energy Corporation	$ 72.59	$ 67.50	-7.0%	4.5%
Entergy Corporation	$ 63.24	$ 69.68	10.2%	4.8%
Exelon Corporation	$ 34.48	$ 30.88	-10.4%	6.8%
NextEra Energy, Inc.	$ 77.68	$ 81.48	4.9%	2.9%
Spectra Energy Corp.	$ 30.75	$ 34.46	12.1%	3.5%

Notes:

Added: Toronto Dominion

Deleted: Advance Auto Parts, Itron

Excludes certain speculative names purchased by one client.