Falcon Financial Management, Inc.

February 6, 2013

Dear Friends:

I attend a dinner monthly with some very interesting men. A couple of weeks ago we got together and the retired Dean of the UF College of Business, Bob Lanzilotti, led the conversation. We were talking about the economy and the Dean challenged me to differentiate between my thoughts on the economy and my thoughts on the markets. So let me give you my thoughts on them right off the bat.

The economy and the stock market are not mirrors of each other. They undeniably influence each other.

For example, last year featured an economy growing very modestly. There was a great third quarter of growth but most experts agree that the 4th quarter will be very modest. The recovery is very slow. Yet the S&P 500 was up over 16% and the DJIA was up more than 10%.

We saw the stock market go through a couple of "peaks and valleys".

Unemployment has remained stubbornly high and interest rates and inflation have been low (just check your Money Market returns).

I think that 2013 will end up looking a lot like 2012.

The difference will be the headwinds we are currently facing in Washington and around the world. There seem to be two distinct opinions on which path to take to reduce the deficit, which everyone recognizes as unsustainable.

One opinion believes that raising revenues should be the first focus and the alternative opinion believes that the focus should be on reducing spending first. History will be the judge. In the meantime, the wrangling continues to slow the recovery. I am concerned that we will see a recession in early 2013 and this concern presents us with an opportunity to be patient.

I do think that by the end of the year we will see real growth for 2013 in the range of 2-3%, still a modest recovery and GDP. That said, the most recent quarter, the 4th Quarter of 2012, became the first Quarter since 2009 to contract. It was reported as -0.1%. Two consecutive Quarters of negative GDP is the classic definition of a recession. This will be another headwind to overcome.

I expect unemployment to remain high while interest rates and inflation remain low. I think that we will see another good year for the stock market, 6-8% for the year, with the caveat that we will see continued volatility.

Our portfolios are designed to help meet each person's goals for retirement and financial independence. For most of our friends we have been given the mission of protecting their principal and trying to get the best return we can after that. I say that to remind you that your personal portfolio of investments is always "benchmarked" against the markets. In fact, few of our friends have portfolios that are a mirror of the markets and that should mean that when we see the inevitable retreat of the stock market this year remember that your portfolio wouldn't mirror those peaks and valleys. We tend to trail the stock market when it is racing up, but when it retreats our portfolios, because of their diversification, tend to hold their value. (An important caveat to remember, past returns are no guarantees of future performance. All investments have the risk of losing value, market value risk as well as purchasing power risk).

Here is a look at how our selected indexes did for 2012 and the 4th Quarter:

The Scoreboard
(www.investmentadvisor.com)

	2010	1st Q 2011	2nd Q 2011	3rd Q 2011	4th Q 2011	2011	1st Q 2012	2nd Q 2012	3rd Q 2012	4th Q 2012	2012
S&P 500	**12.8%**	**5.9%**	**1.8%**	**-7.4%**	**11.8%**	**2.1%**	**12.6%**	**-2.8%**	**6.4%**	**-0.4%**	**16.0%**
DJIA	**11.0%**	**7.1%**	**2.5%**	**-5.9%**	**12.8%**	**8.4%**	**8.8%**	**-1.8%**	**5.0%**	**-1.7%**	**10.2%**
NASDAQ	**16.9%**	**5.0%**	**2.1%**	**-6.8%**	**8.2%**	**-0.8%**	**19.0%**	**-4.8%**	**6.5%**	**-2.7%**	**17.5%**
LBAB	**6.5%**	**0.4%**	**2.6%**	**3.1%**	**1.1%**	**7.8%**	**0.3%**	**2.1%**	**1.6%**	**0.2%**	**4.2%**

(Investors cannot invest directly in indexes)

There have been many questions about what happened with the "fiscal cliff" agreements at the end of the year. I have attached a summary from one of our research partners. The key take aways for me were that most of the decisions were "permanent" and addressed a variety of issues that we have been struggling with for many years.

As you know Multi Financial, our Broker Dealer, has changed their name to Cetera Advisors. This does not change my relationship with them or you; we are still an Independent Financial Planning team. I have attached a sheet introducing all of our team members and their responsibilities. I hope that this will help you to navigate who can help with your questions or issues.

Once again, I want to invite all of you to join Chris and I on Saturday mornings at 8:30 am where we will continue to be hosting Dollars and Sense on 97.3 FM. Our show is also available, if you are not in Gainesville, via the Internet. So check us out on Saturday mornings and if you have questions or topics that you would like us to discuss then please give Chris a phone call or drop him a line at Chris@ffmonline.com.

We are here to solve problems. It's what we do. Do not hesitate to let Darla or me know if there is anything you need from us. When we can assist, we will.

I also want to take this opportunity and ask you to remember us when friends and family are struggling with these same questions going forward.

Many folks are in retirement plans that don't offer them the kind of investment and planning advice that we provided for you. We have built this business on referrals, on the idea of working with a lot of people just like you. We appreciate you and would like to help those around you.

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