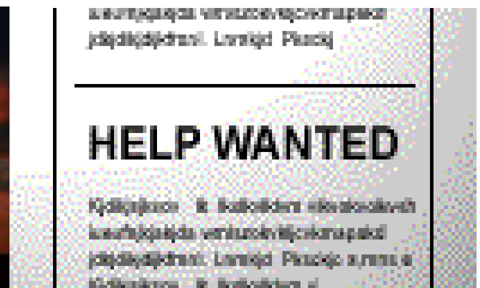
February 1, 2013

To my investors:

Thank you for your continued vote of confidence.

It would be easy to just say that the major equity averages put in a decent performance in '12 and just leave it at that. But a few things happened while many investors weren't looking. Policy actions (QE1, QE2, QE3, TARP, TALF and quite a few alphabet soups of policy actions that have already been forgotten), corporate right-sizing (or down-sizing), and massive refinancing by homeowners and corporations finally bore fruit. The revival in housing, in automobile manufacturing, the creation of about 150,000 new jobs per month over the last 24 months, the increase in bank lending, the massive corporate bond issuance at low rates; it all added up in '12. **Once the Armageddon trade came off the table, the impetus to be under invested in equities simply went away.**



And things didn't go majorly wrong overseas either. Europe (ECB instituted LTRO-Long Term Refinancing Operations) and China (Stimulus and cuts in Reserve Ratio Requirements over the last year) stabilized. The Nikkei advanced as Japan's newly elected government won on a platform of aggressive economic stimulus. **So, the theme for last year is that the global economy just got a little stronger, led by the U.S., and that was all it took to goose the major averages higher in 2012. Better yet, at the end of the year, the U.S. private sector actually accelerated, as witnessed by the large upward revisions to employment figures from last November and December; despite facing the potential negative effects of the fiscal cliff.**

The momentum continued into the beginning of 2013. ISM's PMI (Purchase Managers Index), automobile manufacturing, construction, consumer confidence and Q4 earnings have been coming in better than expected. A few things I'll write in defense of the return to levels not seen since 2007:

- **The rally is being led by the generals; the high quality blue chips that pay decent dividends. This, as opposed to over reliance on an over leveraged banking sector (2007) or an over inflated tech sector (2000).**

- **The trailing P/E ratio of the Dow is lower today than when it last peaked in 2007.**

- **2011 was a flat year as measured by the S&P 500. So, if you average the last 2 calendar years, you get about a 7% to 8% annualized return. Decent, but far from a rip-roaring advance.**

- **Everyone, and I mean EVERYONE, is questioning the major market index advance since the middle of last November. Paranoia reigns supreme; quite the opposite of irrational exuberance.**

I usually hold off on predictions until the end of this letter, but since the question on everyone's mind is whether or not the current rally is too much too soon, let me just get this out of the way now.

Can the Dow Jones Industrial Average climb another 7.07% over the next 11 months? When I look at the 30 components individually, I see about ½ still trading below their 52 week highs. I see rising dividends and share buy-backs. I see new drugs coming out, new technology products coming out, I see reorganizations starting to kick in, a powerful uptrend in aerospace, and I see healthy banks trading below book value. I can see the Dow going up another 7.07% from here, which would put the index at 15,000 (Dow closed at 14,009.79 on February 1, 2013). In my opinion, it's not even a bold call. **Calling for Dow 14,000 in the summer of 2011 (S&P downgrade of U.S. credit rating) within 12 to 18 mos. and repeating the forecast in the beginning of '12 was bold, but not this one:** http://www.youtube.com/watch?v=BXssgQjc60U&list=UUrBVn28CBfKRsJYK3VO-dlg&index=3, http://www.clientfirststrategy.com/New/clientfirststrategy/2012predictions.pdf?advisorid=70331851, http://www.youtube.com/watch?v=GLDTff06pmQ&list=UUrBVn28CBfKRsJYK3VO-dlg&index=6

Forward looking, as this document is meant to be, there are several themes in 2013 that are at work:

- **Corporations' relentless drive to grow earnings and cut costs will drive a surge in mergers and acquisitions activity. If you can't grow organically (because in mature industries growth is a zero sum game), then M&A makes a lot of sense. Plus, it is what shareholders expect. Corporations have the means to do so; cash rich balance sheets, appreciated stock as currency, and access to the fixed income market.**

- **Domestic energy production continues to grow. This is nothing new and many are aware of this phenomenon. But one thing that stands out in my mind are predictions in 2012 from IEA (International Energy Association) that the U.S. will surpass Saudi Arabia in oil production by 2017, that it will become a net exporter of natural gas by 2020, and it will be fully energy independent by 2035. Peace dividend, improved trade balance, lower inflation, lower manufacturing and labor costs, it is difficult to overstate the long term benefits for businesses and consumers. This is a long term game changer and I consider my children lucky to have this in front of them.**

- **The repair trades both domestically and Europe will continue to benefit multi-national companies. Investors will continue to purchase shares in these companies.**

As is the norm, the previous year's issues are spilling into the New Year. The immediate focus is the potential sequestration that is scheduled for March 1st. The intermediate focus will be how the impact of the Affordable Health Care Act will impact businesses. The long term focus will be how the Fed raises rates and unwinds its massive bond holdings.

Well, these are known issues and as I like to say, if you know about them and I know about them, then they're not what's going to derail the economy or the stock market advance. The bear case is overwhelmed by the aforementioned bull case. In other words, you actually have a near perfect set of conditions for equities to continue their advance. Corporate earnings, investor psychology, M&A activity, and domestic energy production are all at once in investors' favor.

Regardless of one's optimism or pessimism, our strategy remains the same; extensive use of buy-limit orders and profit protecting STOP orders for both my individual stock clients and for my asset allocation clients. We do so to potentially reduce volatility and to improve our cost basis; our way of taking back control in an environment that occasionally goes out of control. So, we are prepared for pullbacks because they can happen at any time. Conservative use of certain derivative products and strategies has been added to some accounts and I expect those tools to be more widely used as part of my daily client portfolio activities. There's more to it than this and, of course, more on my strategies are available upon request. Last on this, I avoid any investment product that you can't plainly punch up a quote and other information on any of the major financial news websites.

A few more points to wrap this up before we turn to the full Monty of predictions for 2013.

Last June, I successfully passed the **Series 9 and 10 exams**, becoming a General Sales and Securities – OPTIONS and a General Securities Sales Supervisor – GENERAL. Additionally, I became an OSJ (Office of Supervisory Jurisdiction) Manager for NEXT Financial Group, Inc. Being a strong believer in continuing education; I look forward to bringing my clientele the benefits that come from understanding the latest industry strategies, topic, and regulations.

In 2012, NEXT Financial Group, Inc. attained for the 8th year out of the last 10 the **Broker-Dealer of the**

Year Award*

[*Based on a poll of registered representatives conducted by Investment Advisor Magazine. Broker/Dealers rated highest by their representatives are awarded "Broker/Dealer (B/D) of the Year"]

Last year, I put forth 11 predictions for 2012. Some of these are meant to be “off the radar” things. Some are not actually investable ideas. None are guaranteed. But I learn from each and every one of them and to me, this is the fun part…my favorite writing of the year. Before I begin rehashing my ’12 predictions (and kicking myself a little), I want to reiterate that I believe anyone who manages money in the financial services industry must be willing to put his/her own thoughts in public view. I simply do not have patience for fence straddlers, the cowards who claim to be right but have no proof of claim and who merely follow the marching orders from ivory towers spouting biased recommendations. One is allowed to be wrong; it is a necessary part of investing. The key thing is to own one’s mistakes and to adjust quickly and accordingly. While many in my profession adjust their predictions late in the year so they appear like they are right, I like to look them up a year later and see how I did…it’s just more fun that way.

Here they are with comments:

Here they are for 2012:

- Major averages to be higher for 2012. Dow hits 14 K…only about 14% move so very realistic. Plus, about 10 stocks in the index haven’t moved in many years but are in some form or fashion of a turnaround. (Right on direction. Hurricane Sandy and the Fiscal Cliff put my forecast off by exactly one month; DJIA reached 14 K on February 1st. Close enough and put that in the win column, since this is really the most important prediction)

- Best place to be is American large cap global companies. (Correct. I like the international exposure combined with American accounting laws and regulations)

- Long term Treasury rates move higher in ’12! (The Benchmark 10 year Treasury yield actually moved down about 20 basis points, but one month into '13, it is higher. Wrong...by a wee bit. The Federal Reserve announced QE3; purchasing 85 Billion Dollars’ worth of Treasury’s and mortgage bonds per month to tamp down interest rates, was tough to predict that one but I’m glad I got this one wrong)

- Unemployment rate moves to 7.5% in ’12. (2012 ended at 7.8%, so close but no cigar. I did get the direction right as the unemployment rate did indeed move lower)

- MER…ticker symbol for Merrill Lynch before it was rescued by Bank of America…comes back…after Bank of America spins it off to shareholders in its bid to create shareholder value. Dodd-Frank makes the financial supermarket a less viable business model. (Wrong. Perhaps Bank of America realized how profitable investment banking could be when that business picks up)

- The FED doesn't raise rates in 2012…easy call since they already said so…now I have to add an extra prediction. (Right)

- Mergers & Acquisitions activity booms in 2012. (Wrong, it picked up nicely but not a boom. I'll put that one in for 2013)

- The Euro strengthens as the short position in it is potentially overdone. If Germany has a funding problem, then consider this one recanted! (Right. Going into '13, it is starting to hurt Germany's economy. This is especially so since the Yen tanked recently)

- Stock funds regain the affection of investors. (Right. Heavy inflow recently reported by Lipper)

- Windows 8 is a big success. (Wrong. It is a success; just that it's too early to use the word "big". Microsoft says it off to a good start and CNET agrees. But far behind the adoption rates for Windows 7: http://news.cnet.com/8301-10805_3-57567081-75/windows-8-ekes-out-2.2-percent-market-share/)

- Instead of BRIC (Brazil, Russia, India, and China) as the best emerging economy play, look at another set of letters, USA, as the new emerging economy as the risk premium of emerging markets is no longer so much higher than domestic equities as to warrant the risks associated with allocating more toward emerging market investing. (Not to say that emerging markets will do poorly or well in '12, but to suggest that they do not have the super high accelerating growth that they used to have) (Right. For aforementioned reasons above, this was particularly gratifying)

Here they are for **2013**:

- Dow reaches 15,000 this year; reasons above.

- Mergers and acquisitions boom this year. If I keep saying it, eventually I'll be right, right?

- American large caps are the place to be, again.

- Treasury yields move higher for the year. And I do believe investors will move a lot of assets from fixed income to equities. This subject is known in the media as "The Great Rotation". The rotation may not be massive, like the rotation out of equities and into fixed income over the last 5 years, but I believe it'll still be substantial and a driver of equity direction this year. Just by way of rebalancing asset allocation models, a practice used by many types of investors, this should happen)

    - Tax receipts go up and not just because of the deal to avoid the fiscal cliff. More people have a job, that's the best reason. This helps the budget deficit. It also helps municipal financing.

    - Consolidation within the regional banks takes place. This is an addendum to the M&A boom I'm calling for.

    - USA powers ahead in becoming a magnet for global manufacturing firms due to its energy resources.

- The market takes it in stride when the FED starts to telegraph changes to its current monetary policy actions.

- Unemployment rate moves to the 7% range very slowly. The CEO of Travelers was quoted on CNBC as saying that 10,000 people will retire every day for the next 19 years. My O' my, this is a big deal. It is a major reason why the labor force is shrinking.

- The U.S. housing market continues to improve.

Longer term, the widening of the Panama Canal (to be completed in 2014…100 years after its opening) adds to the appeal of manufacturing in the U.S. Once again, the U.S. will be blessed with 2 oceans.

However these predictions workout, you can be sure that I'll hold my feet to the fire a year from now. Investing takes discipline, especially in the face of uncertainty, so I shall continue being diligent in following "everything", keeping up to date, remaining skeptical, thinking deeply before acting, and in keeping you informed. I love what I do for a living and I am blessed to have you as my client.

Follow me on Twitter: @Mitch_Goldberg. I tweet almost every day and this useful tool is a great way to push out brief comments quickly and easily. Retweets do not necessarily mean endorsement; most often they mean I have an interest in the subject matter and I think you may find them interesting too.

Following are articles and quotes from '12.

Wishing you health and happiness in 2013,

Mitchell O. Goldberg

Mitch

Thanks for reading…please show this to someone you feel may benefit from my services. Your referrals are greatly appreciated.

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