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2012 Year End Newsletter

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Dear Clients and Friends,

All of us at CWM are extremely grateful for another successful year. The majority of our clients' primary investment goal is preservation of capital while growing their savings without taking undue risk. When we look back over the last five years (a very volatile period), we can honestly say that we have been successful in not only preserving and growing wealth, but in mitigating some of the historic volatility associated with the markets. We are very lucky to work with such wonderful clients. Many of you have been with us for more than 30 years! Thank you for your trust in us, we take this responsibility seriously.

2012 Year in review

Major US Stock Markets		Commodities	
S&P 500	**13.40%**	**GOLD**	**6.60%**
DJIA	**7.30%**	**OIL**	**-7.09%**
NASDAQ	**15.90%**	**NAT GAS**	**12.11%**

2012 was the year of the risk asset. Unprecedented easy money provided by global central bankers led to riskier assets outperforming more defensive sectors. Junk bonds surpassed investment grade bonds handily and stocks with little or no dividends outgained higher yielding stocks. These are all good examples of risk assets outperformance but they pale in comparison to the best performing stock market in 2012. If someone had told you at the start of 2012 to invest in a country with an ailing, anti-capitalist president who regularly seizes company assets, you could be forgiven for quickly walking away. The best performing stock market in 2012 was Venezuela. Their stock exchange returned + 300% for the year. By the way Greece had a pretty good year as well returning better than 33%.

Bonds – Interest rates fell slightly during 2012. Credit outperformed treasuries but the 30 year bull market in bonds seems to be slowing quickly.

Housing – Housing looks like it bottomed and actually had some incremental positive growth for the first time since 2006.

Jobs – Jobless rate fell from 8.5% to 7.7% during the past year. This was one of the biggest drivers helping investors get more comfortable with stocks in 2012.

What to expect in 2013

First, let's talk about 2013. Numerologists have pointed out that 2013 is the first year since 1987 to have all digits different from one another. Obviously this year also includes the number 13. As far back as the Romans and Vikings the number 13 spooked many people. Knowing that the world did not end on December 21, 2012 as the Mayans had predicted we are not putting any stock (no pun intended) in the fear that the number 13 will cause the markets harm.

Highlight's of New Taxes

1. <u>Everyone</u> who pays social security tax will pay 2% more on first $113,700 of W-2 income.

2. Taxes on individuals or joint filers earning more than $400k/450k will rise to 39.6% from 35%.

3. Capital gains tax and tax on interest will rise to 20% from 15% for those who earn more than $400/$450k.

4. An additional 3.8% Obama care tax on net investment income on the lesser of 1) A taxpayer's net investment income (generally interest, dividends, royalties, annuities, rents and capital gains), or 2) Modified adjusted gross income (this will be the same as AGI unless you've got foreign earnings) in excess of the applicable threshold: $250,000 for MFJ, $200,000 for single).

5. The estate tax exemption will remain at $5,000,000 (adjusted for inflation, so approximately $5,120,000 in 2013) but the rate will increase from 35% to 40%.

6. The phase-out of a taxpayer's itemized deductions (PEASE) and personal exemptions (PEP) return for those earning in excess of $250k/300k (high earning taxpayers no longer get ant credit for having dependent children).

Debt Ceiling

In early 2013, Washington DC will again become the center of attention as a vote is needed to increase the level of debt allowed as we have run up against the maximum allowed by law (set in summer of 2011). We anticipate that our elected officials will once again disappoint us with their behavior and inability to compromise.

Markets

We believe that the low growth, slow recovery story is intact. While we believe in balanced portfolios, if this story continues to play out, stocks should have another good year, credit (corporations) bonds should outperform fixed rate government bonds as the yield curve steepens, and commodities should perform well. Real estate in general should do well but many of the REIT's and Homebuilding stocks have already priced this in and do not look very attractive.

Stocks are generating record profits, trading at low valuations, and yield more than investment grade bonds. US corporations were able to grow earnings at +4% year over year last year and we expect earnings to grow by +6% in 2013. The S&P 500 trades at approximately 13X this year's projected earnings. This is at the lower end of the historic range and certainly not overvalued using this metric. We expect to see a combination of expansion of P/E growth coupled with earnings growth (6%) that would lead to higher (10%-15%) stock prices.

No one knows when interest rates will begin to rise but given some of the recent signs (multiple Fed Governors talking about less easy money, a bounce in real estate, and the jobless rate continuing to trend lower) it sure looks like we are getting closer. It may be 6 months or 2 years, but when it happens, money that has continued to flow into bonds for more than 30 years will be taken out quickly. For this reason when it comes to buying longer duration fixed rate bonds we feel the downside far outweighs the upside.

"The margin for error is so thin," Michael Zezas, Morgan Stanley's head muni strategist, said in a report. "With yields being at the historical lows they're at, it only takes a small move higher in those yields before you realize negative returns". If you own a bond yielding 2% with a 5 year duration and rates rise by 150bps the bond price will fall by 7.5% wiping out 4 years' worth of interest payments.

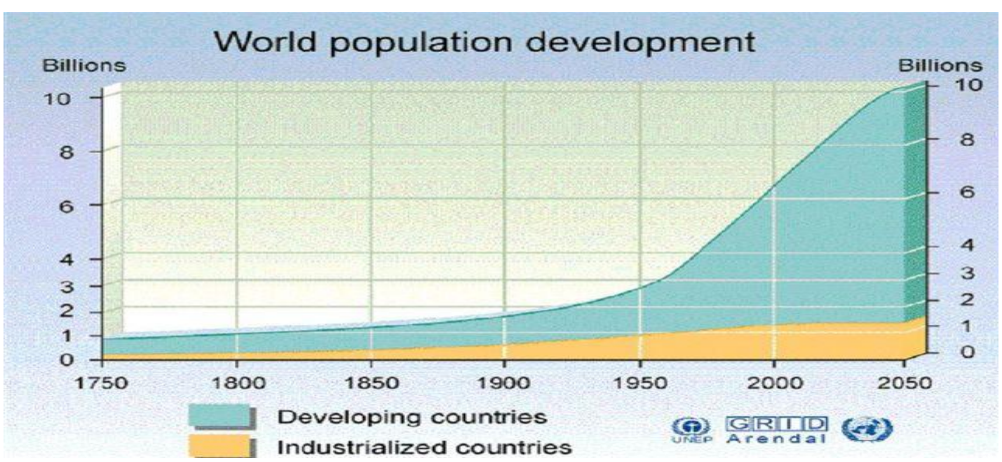
What is CWM doing to protect and take advantage of the current bond market environment? We are positioning clients with shorter duration fixed rate bonds which are less likely to be affected by higher rates. We own floating rate corporate bonds that provide interest payments tied to an index that should rise if rates move higher. Lastly, we started to buy floating rate bank loans early last year. These loans provide an attractive current income, are secured by assets of the companies, and most importantly are floating rate (protection against rising rates).

CWM strongly believes that building customized portfolios is the best way to reach our client's goals. We typically construct well diversified portfolios made up of four to eight asset classes. Currently we are employing US and Foreign stocks, Preferred stocks, US and Foreign bonds, commodities, bank loans, and MLP's in portfolios.

Market Structure Changes

We have written before about how structural market changes over the past few years have created an uneven playing field when it comes to executing trades. High-frequency traders has been given an unfair advantage over longer term investors. We are finally starting to see changes that will start to level the playing field. We expect that in 2013 this trend will continue.

Longer term opportunities



When looking at the chart above a few thoughts come to mind. When we construct portfolios for our clients that comprise of stocks, we had better make sure that the majority of the companies are global and a good chunk of their current and future sales come from developing countries (clearly this is where the growth is projected). How will we be able to feed these people? When the more affluent emerge from these countries what will they want to buy?

We are comfortable with our long held thesis that investments in water, timber, and agriculture will continue to do well. About 925 million people go to bed hungry every night. And every day we add 219,000 mouths to feed, while the land, water and other resources needed to produce additional food edge closer to their apparent limits. These statistics make it very clear to us that companies products that can make farming more efficient or engineer clean water solutions (desalinization, or treatment) will always be in demand.

Knowing that people are living longer and the population is growing are two trends that are favorable for healthcare related stocks. We continue to watch and own assets in big pharma, biotech, insurance providers, drugstores, and medical device makers.

One trend we are keeping our eye on is real estate. Over the next 10 years we expect both the financial consumer and retail consumer to continue their migration to the internet. If growth of internet banking and ecommerce continues on its current trajectory we believe there will be many empty bank buildings and malls. Who, if anyone, will take up this space? Our guess, health care will continue to grow their demand for commercial space.

Administrative Notes

We would like to thank all of those clients who have referred new business to us during the past year. If you have a friend or colleague who may be interested in our services, we will gladly send you a marketing package that you can provide to them. Of course, you can always have them call us directly.

We are happy to announce a new addition to the CWM team. Beth Wahlig will join our investment committee and will also serve as a senior portfolio manager. Beth brings a wealth of knowledge from her background managing and trading portfolios of high yield bonds and leveraged loans for 15 years.

Each year the SEC requires us to offer you a copy of its Securities and Exchange Commission Form ADV, Part II. This form documents standard information on our partnership. If you would like a copy, please let us know.

Finally, 2012 Tax Documents – we will be sending a tax package that you can give your tax preparer in mid-February. It will include realized gain and loss schedules and 1099 tax forms.

In Closing

We wish all our clients and friends a happy, healthy, and prosperous 2013. We want you to know that we value and appreciate your business, and we thank you for trusting us to manage your investment assets.

Daniel H. Moskowitz John H. Raab

Ralph E. Rosamilia John Lui Gregory P. Shaw Beth Wahlig