QUARTERLY REVIEW AND OUTLOOK

During the last few weeks of 2012, Congress debated the integral issues associated with the “fiscal cliff”. The financial “talking heads” and economic “Gurus” were out in full force indicating that the issues would be resolved and a deal would be imminent. As you might guess, in the end, virtually everyone got it wrong.

The deal was passed by the House and Senate in the early morning hours of January 1, 2013. Unfortunately, it was basically a series of tax increases and did not include any associated spending cuts.

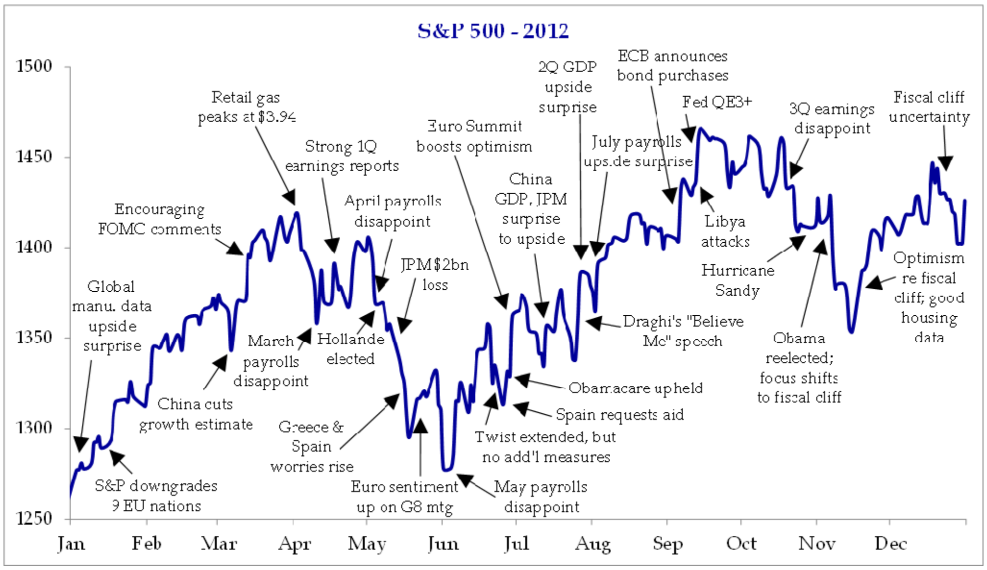
Below is a summary of the most important parts of the “American Taxpayer Relief Act” just passed by Congress:

- The tax rates of 2012 are now permanent for incomes below $400,000 for singles and $450,000 for couples. Income above those ranges rises to 39.6% from 35%.
- Capital gains and dividend tax rates rise to 20% from 15% for the highest tax bracket individuals/couples.
- The government ended a 2% payroll tax cut.
- Estate, gift and generation skipping transfers (GST) are exempt up to $5.125 million (subject to future annual increases).
- The top gift/estate and GST tax moves to 40% from 35%.
- Federal unemployment insurance payouts have been extended one year.
- Alternative Minimum Tax (AMT) “patch” has been made permanent resulting in an estimated 30 million taxpayers escaping the tax bill that they would have owed for the first time.
- The Charitable IRA contribution provision which permits those over 70 ½ to make a charitable contribution with their IRA distribution has been brought back for 2012 and 2013. Please contact us for details on how this may apply to you.
- Roth 401(k) conversion rules have been relaxed permitting for more flexibility on when investors can convert to a Roth 401(k).

As always, you should check with your estate planner, financial advisor and accountant to discuss the full extent of the recent passage of the American Taxpayer Relief Act and how it impacts your individual family finances.

The focus on reducing government spending is being pushed off again (we will NOT say, "kicking the can down the road") and will likely be used as leverage by the Republicans to agree to changes in the national debt ceiling in February.

When we maintain our focus on long term trends, the basis of our increasingly positive posture assumes a fair amount of financial market volatility over the intermediate term. In fact, 2012 is probably a good example of significant market gyrations ending in a strong year in the equity market. We would not be surprised to see 2013 produce some volatile swings and still end in an upwards pattern as well.



Source: Strategas

The economic problems we face in 2013 are still significant but ultimately manageable despite what appears to be a polarized Congress. Over the last few years, Congress has been more reactive than anticipatory. We think the same will be true for the debt ceiling debate facing them in February. Whether Congress deals with it before or after we reach our maximum debt ceiling limit is academic. Something will be enacted. The stock and bond markets will likely swing to the winds of a possible solution (or lack thereof). Regardless, when the dust settles, a solution to this next hurdle will be reached.

More importantly, if Congress actually tackles tax reform and entitlement issues aggressively, the foundation for a longer lasting economic recovery will likely ensue. Even without such a bold move, the market is likely to continue to focus on the overall economic growth now ongoing on a global scale.

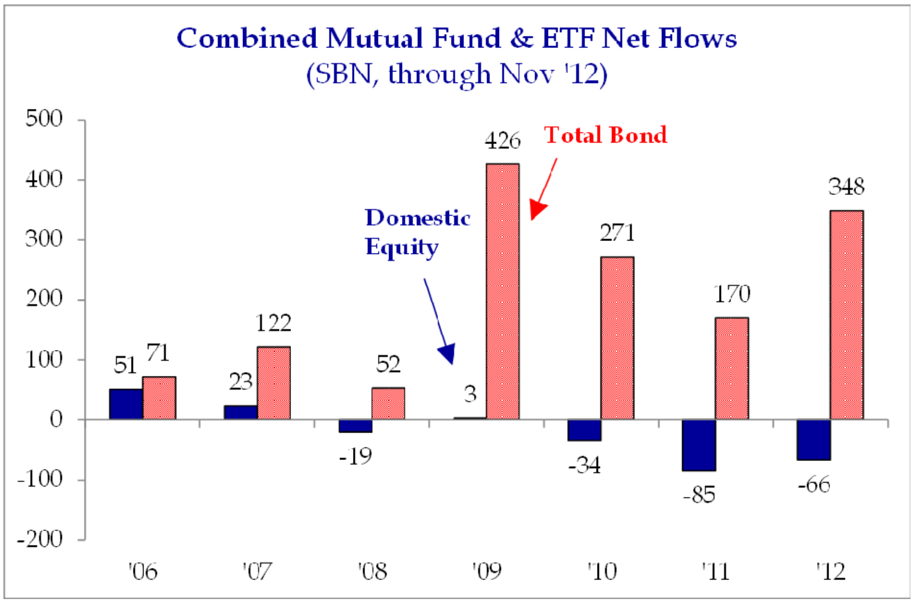
Our increasing optimism is based on the following factors:

- Institutional and individual investors may now begin to redeploy money from bond funds into equity funds. The shift to bonds from equities accelerated in 2009 forward (see chart on page 3). This acceleration reflected the Federal Reserve's program of pushing short

t: 516.439.5100 f: 516.439.5102
111 Great Neck Road, Suite 310, Great Neck, NY 11021

t: 800.259.1331 t: 615.620.3900 f: 615.620.3920
112 Westwood Place, Suite 210, Brentwood, TN 37027
www.kingspt.com

term interest rates lower (thus allowing bond prices to rise) and secondarily, the fear by investors of another financial crisis. Currently, however, the Federal Reserve's efforts are having little increased impact on short term rates. As the economy improves and unemployment rates continue to decline, the Fed may well stop these quantitative easing efforts. When interest rates finally begin to rise and bond values decline, investors are expected to redeploy money back into equities.



Source: Strategas

- Global economic growth appears to be improving. Europe seems to have finally stabilized to the point where financial stability may lead to renewed real GDP growth in the European Union by the end of 2013 and into 2014. In Asia, China and India seem to be showing signs of renewed growth as well. Finally, the U.S. economic picture is slowly but steadily improving. Notwithstanding slow growth or a shallow recession in the first half of 2013, second half trends are likely to be encouraging.

- Corporations are again expected to generate some growth in profits in 2013 and could even generate an accelerating trend in profitability in the second half of the year.

- U.S. equity market valuations are still reasonable. P/E ratios are about 13-14 times projected earnings. Valuations are low relative to where interest rates are currently. Even if 10 year government bond rates rise, P/E ratios could easily support 15-16 multiples in an expanding economic environment.

- Two core pillars of the economy, job growth and housing starts, are beginning to show a steady improvement from the last two years. Both factors should lead to higher real estate values (and consumer net worth). Parenthetically, consumer balance sheets are in much better shape than in the past few years.

The risks to these scenarios are well known. Congress needs to address our massive deficit spending problems not only through taxation but by also modifying entitlement programs. Nevertheless, even if they fail to address the issues at hand, market forces will act accordingly and force them to act. This was the case in 2008 when Congress dragged their feet in their initial efforts to deal with our financial crisis. In the end, TARP was passed, the auto industry and AIG were bailed out and the banks were refinanced and reorganized. As the fiscal cliff loomed in late 2012, Congress again acted at the last minute and then principally focused on taxation. Whether Congress proactively addresses our excessive spending habits or ultimately, the market forces them to address these issues, is a moot point. Ultimately, the economic environment should improve. Thus, any market correction should lead to a long-term investment opportunity. The turning point will likely be when the Federal Reserve no longer needs to keep short term interest rates at artificially low levels. We suspect that may occur late this year or in early 2014.

This suggests that the bond market may be a difficult place to be in the next 12-18 months; particularly if interest rates begin to rise. We continue to seek out attractive intermediate term corporate debt. We also continue to stay with shorter duration municipal bonds. However, it is becoming more difficult to find these kinds of attractively priced assets without taking on more risk.

Within our equity portfolios, we expect to see our emerging markets investments do well this year. Aside from growth re-accelerating in these geographic markets, we also believe that valuations have declined to the point where equities are very attractively priced relative to U.S. and European alternatives. We also believe our focus on high dividend paying securities should continue to provide good returns for another year. As Congress debated the "fiscal cliff" in October through December, high dividend paying securities were under pressure as speculation that dividend taxation could move back to ordinary income tax levels (39.5% tax rate from the 15% tax rate in 2012). In the end, Congress moved to 20% for dividends and long term capital gains rates. This move should be viewed as fairly benign. Importantly, these rates only apply to individuals or family incomes above $400,000 and $450,000 respectively. For the bulk of investors, the 15% still applies.

Lastly, the Congressional agreement specifically left out any changes to taxation as it relates to the Master Limited Partnership asset class. As such, we believe these total return vehicles will remain a critical component of our investment portfolios in this new environment.

While we are always focused on capital preservation, the next 1-2 years offer a number of opportunities for our core portfolio to acquire attractive growth assets. Opportunities are likely to present themselves periodically as the normal political and economic issues are absorbed by the market.

As always, please feel free to contact us to discuss any issues on your portfolio.

Jack L. Salzman
Senior Managing Partner

Jeffrey P. Bates
Managing Partner

John A. Marshall, IV CFA, CFP®
Investment Advisor

Beth C. Webb, CFP®
Investment Advisor