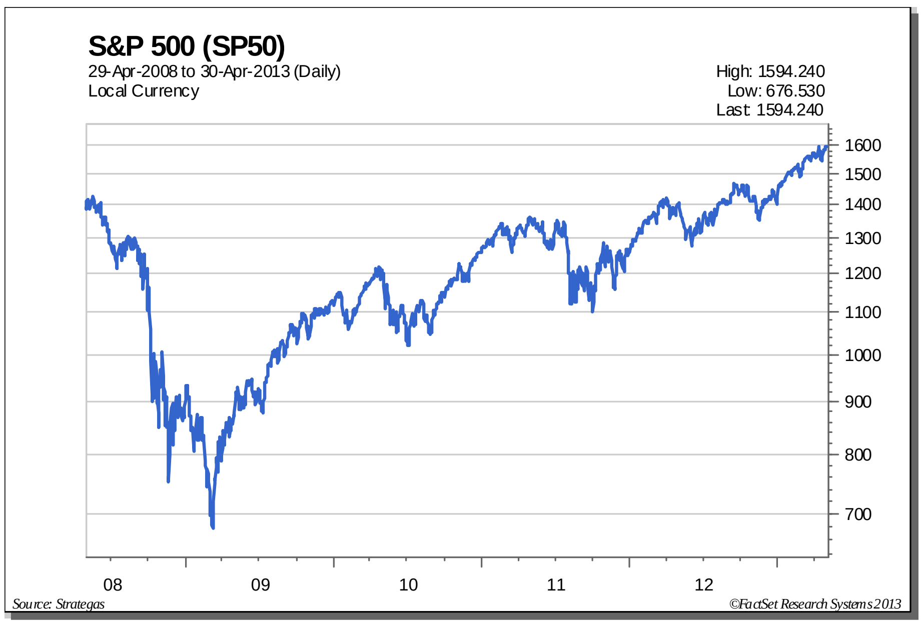
KINGS POINT
CAPITAL MANAGEMENT LLC

QUARTERLY REVIEW AND OUTLOOK

The old Wall Street adage that the market climbs a wall of worry certainly holds true when we review the trends of the first quarter of 2013. Despite clear signs that economic growth is slowing from the already sluggish pace of 2012, as well as continued concern over European growth and financial stability, the U.S. stock market exhibited solid gains throughout the first four months of the year. While we can continue to point to the positive impact of quantitative easing by the Federal Reserve, other factors are clearly at play that may explain the significant first quarter gains in the U.S. equity markets. Indeed, we are now higher than where the U.S. equity market stood before the financial crisis of 2008-09.

Chart I:



First, Congress **did** enact a significant budget cut although the format of sequestration was less than ideal. The bulk of the cuts have come from discretionary spending programs. It left the entitlement programs of healthcare and social security almost totally untouched. Congress also passed another tax increase on upper income tax payers while eliminating a previously announced payroll tax cut. When we add all of these factors together and include modest economic growth as well, we get a better fiscal and monetary outlook for the U.S. economy. It may have come about in an "ugly fashion" but at least some progress has been achieved on these important economic fronts.

Secondly, corporate profits continue to inch forward even with sluggish revenue growth. The latter trend reflects the impact of higher taxes on most wage earners concurrent with reduced government spending in defense and certain administrative areas. Continued sluggish economic growth in Europe and a slowing in growth from China also contributed to the shortfall in growth in corporate revenue.

Third, on a broader scale, the impact of fracking has created massive natural gas fields and to a lesser degree, more oil deposits in the U.S. This is shifting our massive economy from importing energy to the beginnings of achieving energy independence. In fact, we are likely to become an energy exporting nation in the next few years. The potential impact of this on the U.S. balance of payments could be huge.

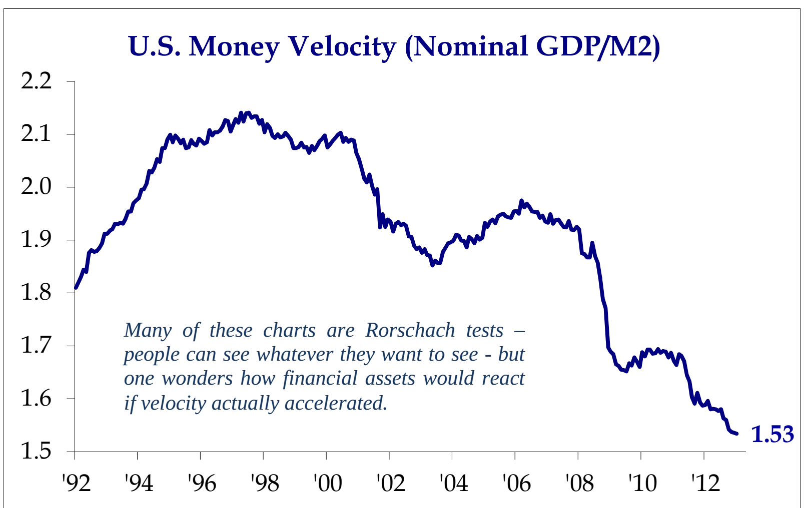
Fourth, our housing recovery is well underway. Importantly, mortgage and credit card delinquencies are declining.

Fifth, massive quantitative easing is forcing investors into the equity market to achieve some level of yield and inflation protection. This shift from bonds is still in its infancy and should interest rates remain low for the foreseeable future (1-2 years), this trend could accelerate.

The message is clear; the economy is slowly moving in an upward direction and could begin to accelerate in the next few years. Should employment growth begin to accelerate from the current 125,000 – 175,000 monthly range, GDP growth could surprise on the upside.

<u>A Trend To Watch</u>

Chart II:
MARKET'S GAINS HAVE OCCURRED DESPITE CONTINUED DECLINE IN MONEY VELOCITY



Source: Strategas

Part of the structural problems of jump-starting growth lies in the almost constant decline in U.S. money velocity since 2008. (See chart II). When banks aggressively lend, money velocity accelerates as these loans flow back into the economy and get re-spent along the consumption chain. With Congress passing legislation that now results in the need for banks to retain more capital, the normal impact of Federal Reserve quantitative easing gets partially absorbed by these higher reserve requirements. Corporations have also been reluctant to accelerate capital spending and have used much of its free cash flow to boost dividends and share repurchase. Hence, we see only a gradual improvement in employment which further tempers the normal course of economic recovery.

As the U.S. government begins to make headway on improving its balance sheet by stabilizing its debt, the opportunity for stronger economic growth should emerge. The trick will be if the Federal Reserve can reduce its quantitative easing without inhibiting economic growth. We think this suggests an extended period of low interest rates even after the Federal Reserve begins to ease back on its current aggressive monetary policies.

All these broader trends are long term constructive to the equity markets. Any significant correction in the market is likely to reflect either an unpredictable geopolitical event or more likely a reaction to the anticipated change in Federal Reserve stimulus policies concurrent with a slow rise in interest rates.

The global bond markets are also continuing the trend of offering little if any incentive to own long dated debt. Even in Europe, the 10 year rate on sovereign bonds of Italy and Spain are approximately 4%.

Finally, the vast majority of stock market recovery has reflected corporate profit growth rather than P/E ratio expansion. (See Chart III).

Chart III:

Then vs. Now: Mar. 9, 2009 vs. Mar. 31, 2013

	March '09 Bottom	March 31, 2013	Pct .Chg
S&P 500 Market Cap ($BN)	5,895	13,979	137.1%
S&P 500 Index Price	676.5	1569.2	131.9%
S&P 500 Operating EPS (LTM)	43.00	96.82	125.2%
Oil ($/bbl)	47.1	97.2	106.6%
S&P 500 Margin (LTM)	4.3%	8.9%	105.8%
Gold ($/OZ)	922.0	1,598.8	73.4%
Fed Balance Sheet Assets ($BN)	1,992	3,204	60.8%
Federal Debt Outstanding ($BN)	11,127	16,771	50.7%
Nominal GDP ($BN)	13,923	16,010	15.0%
S&P 500 Sales per Share (LTM)	999	1,092	9.4%
Real GDP ($BN)	12,711	13,750	8.2%
S&P 500 Trailing P/E	15.7x	16.2x	3.0%
Nonfarm Payrolls (Thous.)	132,106	135,195	2.3%
U.S. Surplus/Deficit (LTM, $BN)	-923	-910	-1.5%
10-Year U.S. Treasury Yield	2.89%	1.86%	-35.6%

Source: Strategas

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Thus, if corporate profits continue to move upwards, the U.S. equity markets look fairly priced on an overall basis. Should economic growth accelerate and interest rates stay relatively low, equity valuations could expand from its current range.

Portfolio Strategy

We remain positive on companies that can continue to generate significant free cash flow and redeploy a portion back into dividend growth. While valuations on these stocks have risen in recent months due to investors seeking yield, we believe the benign interest rate outlook suggests these equities will still do well this year. Indeed, many of our consumer discretionary positions could see a significant improvement in revenue growth as we enter 2014.

We more recently added two new positions to our core portfolio. The first is CBRE Group (known by most as C.B. Richard Ellis) the largest global commercial real estate services firm in the world. Its principle businesses are commercial real estate leasing and sales. Its large global footprint should help this company generate significant growth in the next few years as the global business environment improves.

Our second investment is Brookfield Infrastructure Partners LP. BIP is principally owned by Brookfield Asset Management. This partial spin-out focuses on owning and operating infrastructure assets on a global scale. Investments include utilities, timberlands, shipping terminals and toll roads (including a recent Chilean toll road investment) among other real asset positions.

Thematically, our investments in CBRE and Brookfield Infrastructure position our portfolio to participate in the future growth of global commerce and infrastructure. These positions should also benefit from any re-emergence of inflation. BIP has a yield of about 4% and has an outstanding record of dividend growth.

Barring a recession, we see equities as an attractive asset class. We still remain focused on preservation of capital. However, at this juncture, we continue to see near term market corrections as opportunities rather than signs of developing problems.

As always, please feel free to call any of us to discuss your investment issues.

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