KINGS POINT
CAPITAL MANAGEMENT LLC

QUARTERLY REVIEW AND OUTLOOK

". . .ask not what your country can do for you but what you can do for your country."
John F. Kennedy Inaugural Speech, January 1961

After experiencing what appears to be a dysfunctional Congress lurching from one crisis to another, the American public finally enjoyed a reprieve from the constant bickering of our politicians when they pushed the debt ceiling decision off for another three months. Whether it is the debt ceiling, Obamacare, the deficit or entitlement reform, this current Congress appears significantly polarized.

We can't help but reflect back to the John F. Kennedy quote from his inauguration. We think this dysfunctional Congress needs to focus on serving the interests of all Americans rather than special interests. This underscores the real problems in Congress. Years of aggressive gerrymandering and the rising influence from well-moneyed special interest groups has led to a polarization of views. This has reverberated in a number of ways culminating in the inability to govern "from the center." As such, due to a lack of compromise on many legislative issues, corporations of all sizes remain hesitant to commit excess capital for investment. Without capital commitments, job growth should remain modest, and American industry will likely maintain a conservative stance toward building out domestic expansionary programs.

Additionally, we find it a tad disingenuous that the Congress is so aggressively seeking penalties against J.P. Morgan. During the financial crisis only fives years ago, the government turned to J.P. Morgan for help in picking up the pieces of failing financial firms. Had the firm not stepped in and purchased failing companies such as Bear Stearns and Washington Mutual, the US financial system may have imploded.

Despite all these political headwinds, the stock market has reached an all-time high. We believe it principally reflects the continued growth in corporate profits. At current levels, the stock market's valuation of 15~16 times projected earnings is fair given the outlook on interest rates and the continued modest to moderate economic expansion now ongoing.

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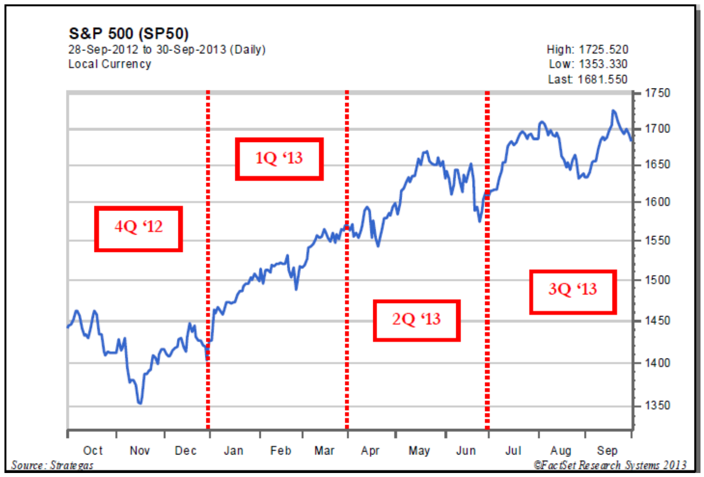
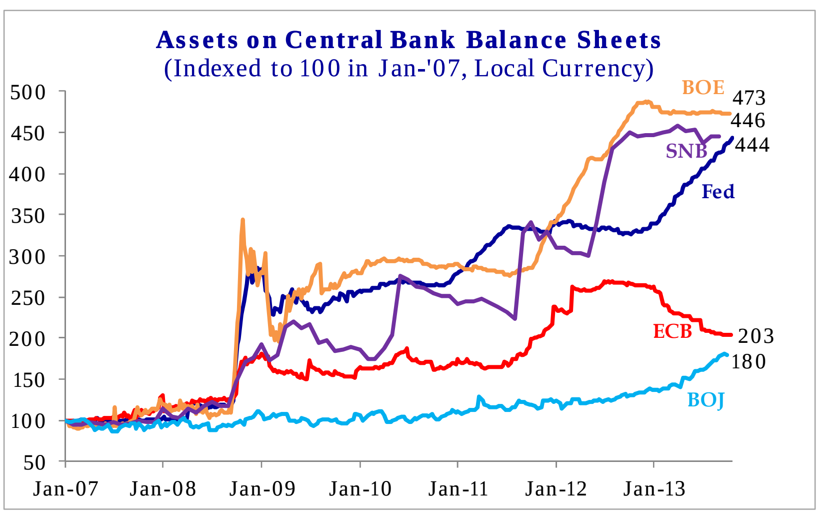
Chart I



As a result of anemic growth in the job market and a lackluster GDP, (Gross Domestic Product) the Federal Reserve has maintained its quantitative easing policies. These actions continue to reflate financial assets by maintaining interest rates at relatively low levels. With expectations that these policies will persist over the intermediate term, it is possible that equity valuations can move higher in comparison to the historic average that currently exists. Thus, even with anemic economic growth and a sluggish job market, it is likely that rising corporate profits will push the equity markets higher into 2014.

Chart II



Source: Strategas

On a broader scale, global economic policies may paint an even more interesting picture. Major central banks around the world have adopted similar economic stimulus policies to those implemented by the Federal Reserve (see Chart II). As a result, Europe is finally showing some signs of (very modest) economic growth. Even struggling Greece is seeing signs of economic expansion. In Asia, although the fear of rising U.S. interest rates has led to a short-term sell off, the policies are in place to provide very attractive entry points for long-term investments. While our past focus has been on BRIC countries (Brazil, Russia, India and China), today we are seeing attractive markets in non-China Asia, Africa and parts of Latin America.

While some bearish investors will undoubtedly focus on the inflation risks, the reality is that inflation remains relatively well contained globally. We expect this economic environment to remain in place for some time. Indeed, when interest rates on the 10-year U.S. Treasury Bond jumped to 2.5% from 1.7% (when the Federal Reserve indicated its ultimate intention to "taper" its bond buying in the future), sales of homes in the U.S. slowed substantially as mortgage rates moved higher. The fear of a housing slowdown is one reason why the Federal Reserve delayed tapering last month. Fed officials are convinced that the U.S. housing market is a major driver of economic recovery. Without continued support in this critical area, economic growth will falter. As a result, we expect a relatively long period of subdued interest rates unless GDP growth significantly accelerates to 3.5% (due to substantial leverage in the system) or job growth dramatically improves. This type of economic environment is supportive of equity valuations moving higher.

For fixed income investors, this environment is more difficult to manage. For the last thirty years, bond investors have become accustomed to a declining interest rate environment. As such, investors never experienced the "unrealized losses" in fixed income instruments if rates actually increased. During the months of May through September, as interest rates moved higher resulting the Fed's announcement on "tapering", investors did experience that paper loss. This has caused many investors to question the need for fixed income investments in a rising rate environment. We would remind investors:

- Avoid the use of most bond funds. In a rising interest rate environment, a bond fund must be held "longer than the duration of the fund" and interest rates must ultimately stabilize for the investor not to lose money.

- Utilize individual fixed income securities and maintain a shorter duration depending on cash flow requirements.

- Maintain a discipline of quality over yield to avoid unnecessary risks.

- Utilize tax-free and taxable structures to achieve a higher after-tax return.

- Overlay taxable high-yield instruments and floaters as needed to enhance return.

A fixed income strategy of this type will generally limit any losses induced by a movement higher in interest rates.

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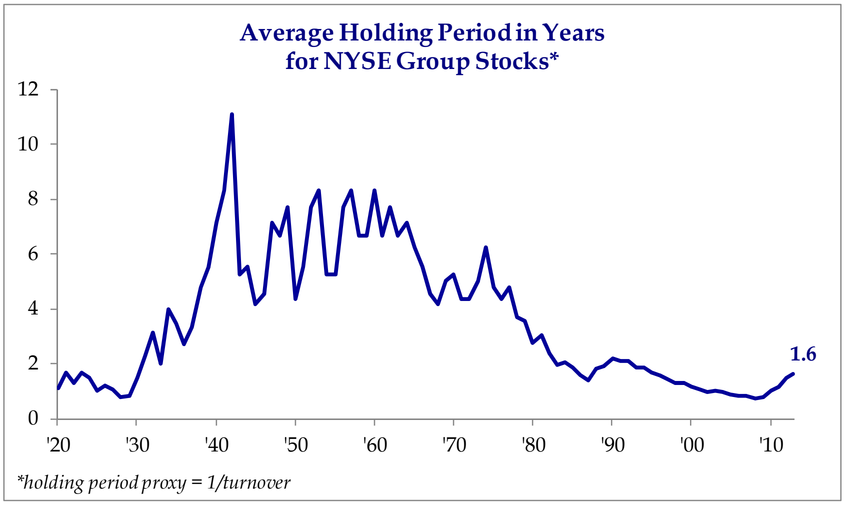
EQUITY PORTFOLIO REVIEW AND OUTLOOK

We focus on establishing positions in equities for a minimum of 18-24 months. Importantly, we seek out investments that are not necessarily the most sought after on a short-term basis. This focus allows us to invest in companies that may be at inflection points in achieving a longer-term acceleration in growth. Our investment discipline remains focused on companies that are category dominant, possess strong cash flow, and offer reasonable valuations among other key factors.

Chart III



Source: Strategas

As you can see from Chart III, the holding period for stocks bottomed around the market decline of 2009. The average holding period currently sits at 1.6 years, down from 6 years plus in the 1950's and 1960's. While many investors seem to "get" the Warren Buffett approach to long-term investing, few seem to want to adopt the discipline and patience necessary to hold equities for more than 1-2 years.

Similar to Buffett, we believe in the power of compounding and have the patience to allow our portfolios to benefit from this over time. One good example is our recent addition of Coach to our portfolio. The company is trying to expand into a lifestyle brand by adding footwear, a full men's line, more accessories, and apparel to their core handbag line. Concurrently, they are vying against strong competitors that have taken market share in their handbag product line over the last few years. Indeed, this is similar to what Apple is facing. We believe Coach will ultimately emerge in the next six-to-twelve months as a rejuvenated global brand with accelerating growth across all product lines. The stock is selling at a cheap valuation on depressed earnings. With zero debt and over $1 billion in cash, we like the strength of the total organization. The company has been also buying back stock and we believe it will continue to do

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so in the current fiscal year ending in June. While it may be generate lackluster performance near-term, we expect the company to significantly outperform once growth returns to its core brand of handbags and its lifestyle expansion efforts moves them forward as a broad-based, formidable global competitor.

As always, we are happy to answer any questions you may have regarding the overall portfolio.

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