objectivity²
WEALTH MANAGEMENT
of
RAYMOND JAMES®

2013 Market Commentary

Year Ahead Outlook

Table of Contents:

Gold in a Bubble?

"Sprott Asset Management out of Canada found in their research that in 1981, when gold reached its all-time high (inflation adjusted) price, the value of gold and gold company stocks represented more than ¼ of total global financial assets. They estimate that today that number stands at around 1%"

-Sprott Asset Management

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Top Themes for 2012: A Brief Look Back

Gold Continues to be a Hedge

Central banks have been net purchasers of gold for the first time in decades as they seek to diversify against the potential of currency devaluations. If the ECB is forced to print money to support a collapsing member country, that would surely have a stimulative effect for Gold prices. We think the 200 day moving average at roughly $1600/oz. will provide major support next year with the $2000/oz. range in play on major Eurozone restructuring or significant US Dollar weakness.

Grade: B-

*Gold had it's 12th positive year in a row, although it underperformed domestic and international equity markets. We still believe that in the face of budget deficits, that are rising at **TRILLONS** of dollars a year, gold remains a commodity & alternative currency that protects against deflation and/or hyper-inflation caused by the printing presses of sovereign governments.*

Volatility is here to stay in 2012

Political Unrest, Potential Spikes in Oil Prices, Forced Austerity plans, Record Sovereign Debt Levels and High Unemployment…Is there much more that needs to be said about the potential for continued volatility in 2012? Rarely has their been a time in history where markets have rallied sharply with the world in such political, social and economic turmoil. The critical level for the VIX last year was 30 and spikes above that level typically indicated short term pressure on the markets.

Grade: C

Equity markets experienced their fewest number of days where the market moved +/- 2% in the last 4 years. The VIX index also spent much of the year 10-20% below it's starting level of 22. There was an extreme rise in complacency about the "known" risks in the market (Europe, unemployment, mounting US debt) and an acceptance of the dysfunction in DC and Brussels.

"The fundamental problem that has dogged the economy and equity markets since 2008 will remain. Growth is likely to be slow as economies emerge from a debt crisis. Authorities can intervene to prevent a repeat of the Depression but the result is still likely to be sluggish rebounds with more frequent recessions…this does not mean investors cannot make money. Even Japan has had some 50 percent rallies within its long bear market. But it does mean that "Buy and Hold" is not necessarily a winning strategy"

-The Economist, Buttonwood "Ever Hopeful"

Top Themes for 2012: A Brief Look Back

Dividend Paying Stocks

Typically dividends account for 40% of the annual returns for equity markets. In 2011, dividends actually accounted for 100% of the returns of the S&P 500. In an environment where so many quality companies are paying dividends greater than a 10 year Treasury bond, we believe the theme of owning dividing paying stocks will continue to be profitable in 2012 and beyond. In addition to US corporations, we believe there are ample opportunities in high dividend paying Asian companies which have been punished recently due to the growth scare in China.

Grade: B

US Dividend paying stocks slightly underperformed the S&P 500, while our theme of Asian dividend paying companies was additive to performance versus the EAFE index. All in all, this is a secular theme, due to the aging population of the US, that will be in tack for decades to come.

Favor Corporate Credit over Sovereign Debt

For the first time in the post WWII era the worlds sovereign debt levels have eclipsed the total GDP (this level was in the 70% range just 5 years ago!). Meanwhile, US Corporations, while facing economic headwinds are holding record levels of cash on their balance sheets (estimated at $2 Trillion). We continue to believe that US companies can weather this muddle through environment for another couple of years and default rates will likely be below normal.

Grade: A

Intermediate Investment Grade Corporates (11.7%) and High Yield Corporates (13.8%) both outperformed the US Treasury 7-10 year index (4.1%) by a wide margin.

Objectivity² Wealth Management's

Top Themes for 2013:

- Defensive vs. Offensive Strategies acknowledging that sometimes the best defense is a good offense
- Global Equities with Dividend Growth
- Long/Short Equity Managers that can be Tactical
- Fixed Income managers favoring Corporate over Sovereign Debt and short vs. longer duration
- Larger Allocations to Alternative Asset Managers that are unconstrained
- Gold as a hedge against political uncertainty and competitive currency devaluations
- Focus on Risk Adjusted Returns vs. Benchmarks

2013 Thoughts & Themes

*In their book, **This Time is Different**, economists Carmen Reinhart and Kenneth Rogoff argue that once a government's debts become unsupportable then governments must resort to one of three debt reduction strategies:*

- ***Default**: Simply refuse to repay the owed obligations (e.g. Russia in 1998, Argentina in 2000, Greece currently and for much of its existence)*
- ***Lower Standard of Living**: Endure higher taxes and fewer government services as debt obligations are repaid (e.g. Brazil and Korea in the 1990s, Portugal and Ireland currently).*
- ***Financial Repression**: Print enough money to lower interest rates below the rate of inflation and keep rates there until debts are inflated away (e.g. US and Great Britain post WW II, China in the 1990s, much of the world economies currently).*

Default or lower living standards typically occur only if the indebted country cannot print the currency in which it has borrowed. If the country owes its own currency, then depressing interest rates by printing more of that currency (financial repression) tends to be the least painful way to reduce excessive debt.

History in the US provides us with an example of this policy. The Fed used its printing press to keep interest rates below the rate of inflation throughout the 1940s and early 1950s in response to the large debt burden left over from World War II.
It is estimated by the CBO (Congressional Budget Office) that that the potential budgetary impact of short term interest rates rising to 3.5% combined with rising debt would add more than $1 Trillion to the annual budget deficit by 2017.

We believe that this budget reality compels the Fed to emulate its post-World War II financial repression strategy. Should the Fed continue this strategy in the next few years, as much as half of the associated purchasing power losses could be borne by the Foreign Creditors such as the central banks of China and Japan. The ability to shift much of the cost of reducing US debt burdens to foreign institutions is a powerful incentive for the Fed.

So……… what are the implications of this policy, how does it distort the capital markets and what are the perverse ways in which it alters the relationship of "safe vs. risk" assets. We feel these are all important factors to question as we enter the second half of this deleveraging cycle.

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2013 Thoughts & Themes

We think GaveKal Research said it best in a piece they wrote earlier this year titled "Feeling Sorry for People who Don't Drink": To wit:

"As we embark on the second decade of the 21st century, we are entering into a brave new world in which central bankers (whether Bernanke, Carney, or Draghi) have decided that the value of assets must no longer be driven by price that would be reached today, but instead by what best price a given asset may have reached in the past……. We have now moved from a world where money was at the center of the system and asset prices at the periphery to a world where some specific asset prices are at the core of the system, while money has moved to its borders. If nothing else, this means the supply and demand for money, along with its price now has a lot less to do with economic activity, or individual capital and time preferences as expressed in a market. The supply of money has become the de-facto variable of adjustment; a supply managed by central banks with the sole purpose of preventing selected asset prices from going down….. This is a revolution which requires us to rethink the way we analyze economies and financial markets."

Or as our good friend and trusted voice of reason David Rosenberg states:

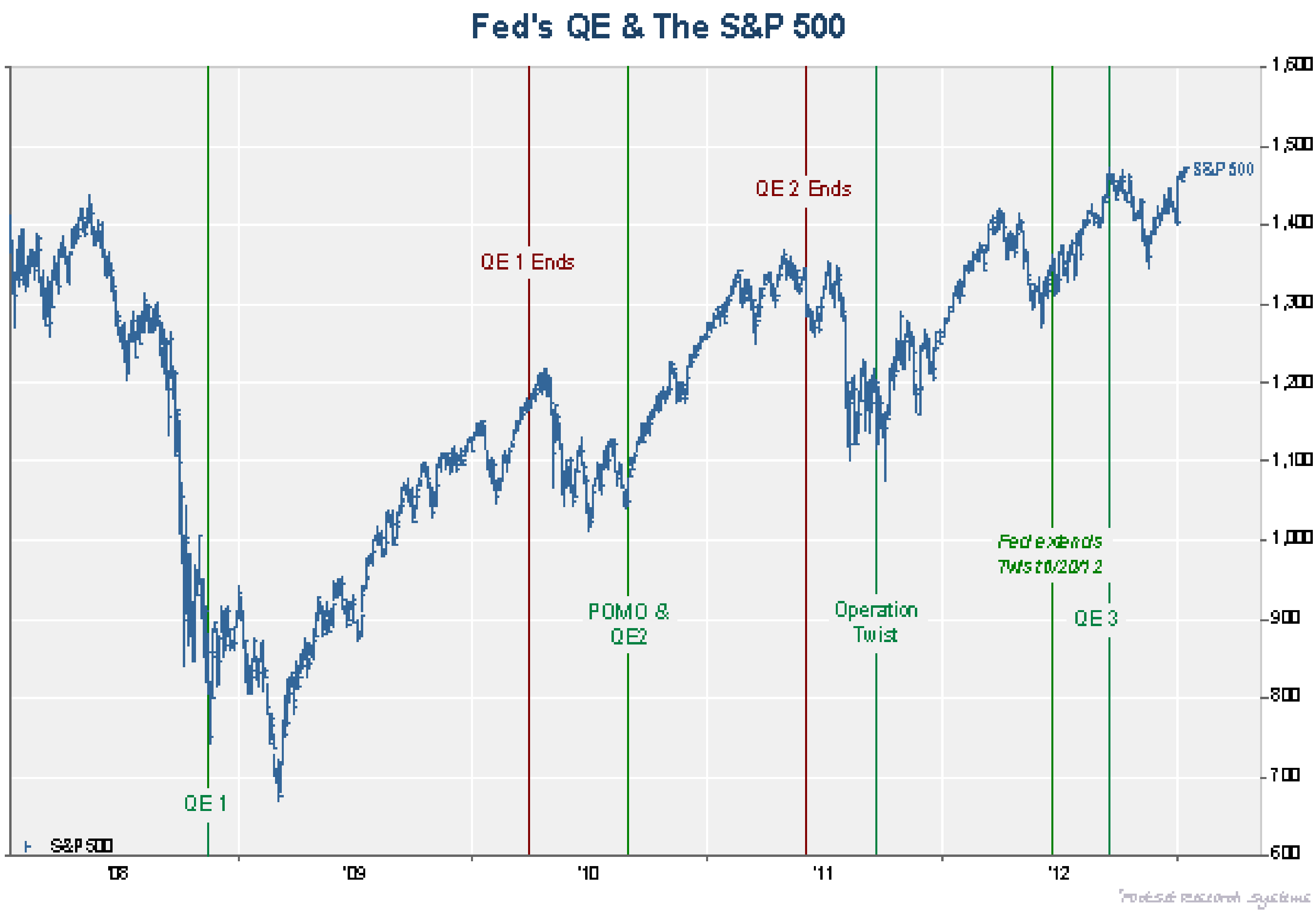
"The Fed has completely altered the relationship between stock and bonds by nurturing an environment of ever deeper negative real interest rates. Therein lies the rub. The economy and earnings are weak, and getting weaker, but the interest rate used to discount the future earnings stream keeps getting more and more negative, and that lowers the corporate cost of capital and in turn raises the present value of expected future profits. It's that simple."

If we go further back in history we can turn to Ben Graham's writings. The quotation comes from the Intelligent Investor, which was written right in the middle of the post-World War II period of US financial repression:

"It must be evident that we have no enthusiasm for common stocks at these levels…..However we feel that the defensive investor cannot afford to be without an appreciable proportion of common stocks in his portfolio, even if we regard them as the lesser of two evils- the greater being the risks in an all-bond holding."

We conclude with thoughts from the folks at GMO. To wit:

"We don't like stocks as an asset class compared to what we think fair value should be. However, the alternatives are generally really awful. This problem is further exacerbated if the Fed continues to engineer a policy of financial repression beyond our forecast horizon."



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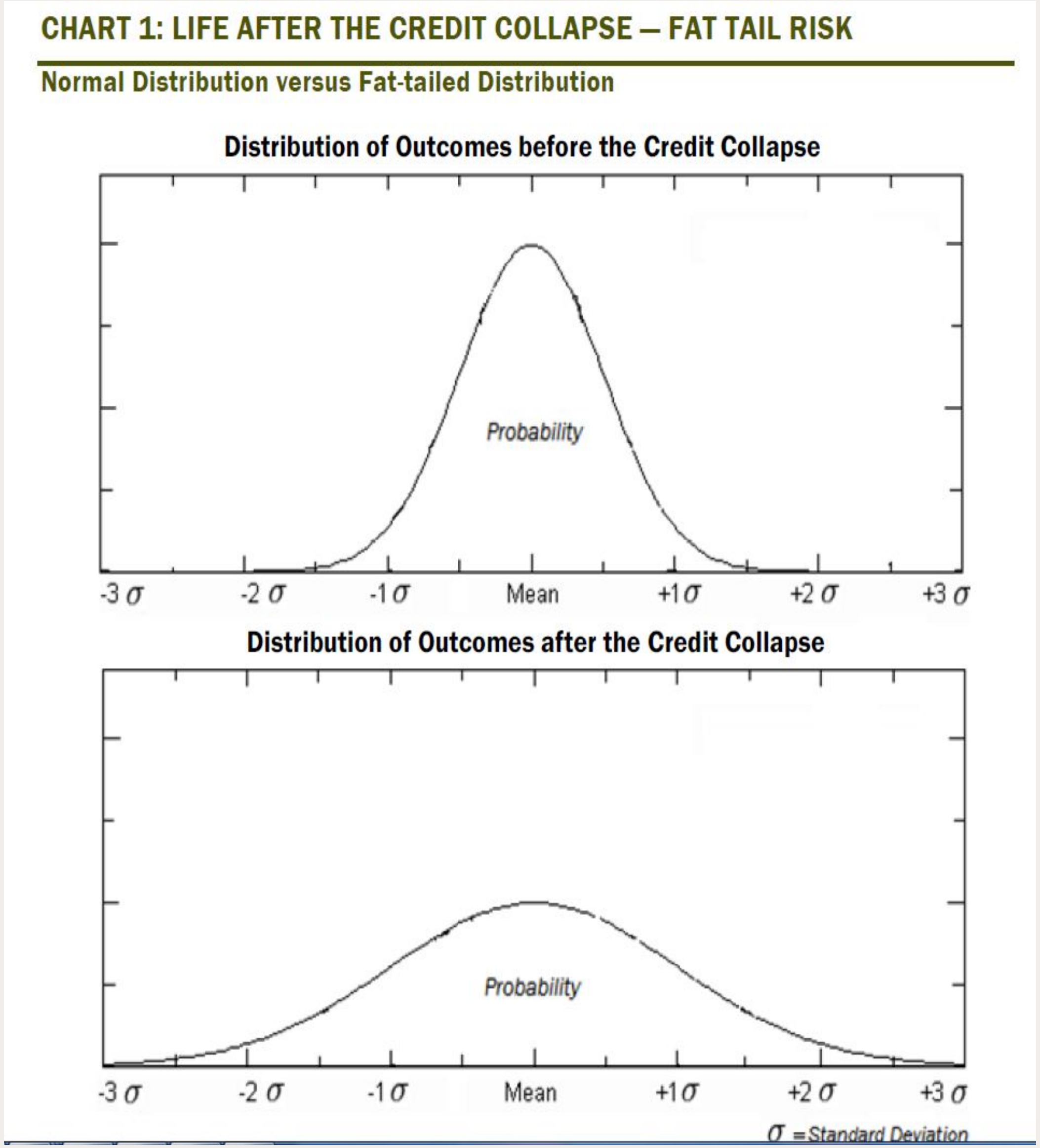
The Objectivity² Perspective

The Range of Outcomes has Widened

"We are in a classic post-bubble 'fat-tail' world where the range of outcomes is unusually wide. A wider dispersion of outcomes means more opportunities for active management rather than passive index investing and this augurs for more active portfolio management, not less. Said another way, a wider range of outcomes means those who can identify underpriced securities, or have high conviction ideas/strategies, have a better chance to outperform the market."

David Rosenberg, Gluskin Sheff
Special Report: The Investment Outlook for 2013
December 2012



“The essence of investment management is the management of RISKS, not the management of RETURNS.”

-Benjamin Graham, Legendary Value Investor

We manage risk within a global asset allocation framework (within min/max ranges across the various asset classes) and overlay tactical adjustments through the use of 50, 150 & 200 Day Moving Averages.

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Objectivity² Portfolio Overview & Strategy

Low Volatility Allocation

Current Allocation: 15% Equity, 40% Fixed, 34% Strategic, 11% Cash Alternatives

Benchmark Allocation: 15% Equity, 60% Fixed, 25% Cash (Dow Jones Conservative Index)

3 Year Annualized Return:	7.6%
3 Year Beta:	0.30
Target Net Return:	CPI + 1% (projected 3-5% annualized over 3 years)

Our goal with this portfolio is to provide an alternative to cash, CDs and short term bonds for our client’s most conservative pools of money. Our 15% equity allocation is equally split between active managers allocating to dividend paying, global equities and a long/short manager that can hedge out market risk. Our two core fixed income managers allocate their 40% of the portfolio by actively managing both credit & duration risk. The Strategic/Alternative allocation is built to be the anchor of the portfolio and should not be highly correlated to either the equity or fixed income markets. This 34% allocation is equally split between a portfolio focused on precious metals & natural resources to hedge the extremes of an inflationary or deflationary environment and an unconstrained, absolute return manager that seeks to provide risk-adjusted returns in excess of inflation. We provide liquidity and an additional hedge by allocating 11% of the portfolio toward cash alternative strategies that utilize ultra short duration municipal paper, seeking to provide returns in excess of traditional money markets & CDs.

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Moderate Allocation

Current Allocation: 30% Equity, 30% Fixed, 39% Strategic, 1% Cash

Benchmark Allocation: 60% Equity, 35% Fixed, 5% Cash (Dow Jones Moderate Index)

3 Year Annualized Return:	**8.6%**
3 Year Beta:	**0.43**
Target Net Return:	**CPI + 3%** (projected 5-7% annualized over 3 years)

This portfolio is built as balance between capital preservation and growth, and is an alternative to the traditional “60/40 balanced” portfolio you will see on almost all investment platforms. The 30% equity allocation is a blend of 15% passive strategies, designed to track equity markets in a low cost vehicle, and 15% in Opportunistic Equity managers. This active sleeve is split equally between global dividend paying equities and a long/short manager that can hedge out some of the market risk. Our two core fixed income managers allocate their 30% of the portfolio, actively managing both credit & duration risk. The Strategic/Alternative allocation is built to be the anchor of the portfolio and should not be highly correlated to either the equity or fixed income markets. This 39% allocation is equally split between a portfolio focused on precious metals & natural resources to hedge the extremes of an inflationary or deflationary environment and an unconstrained, absolute return manager that seeks to provide risk-adjusted returns in excess of inflation.

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Growth Allocation

Current Allocation: ***45% Equity, 15% Fixed, 39% Strategic, 1% Cash***

Benchmark Allocation: *80% Equity, 15% Fixed, 5% Cash (Dow Jones Moderately Aggressive)*

3 Year Annualized Return:	***10.2%***
3 Year Beta:	***0.52***
Target Net Return:	***CPI + 5%***
	(projected 7-9% annualized over 3 years)

This allocation is built to provide the most growth opportunities while still adhering to our risk management philosophies. The 45% equity allocation is a blend of 15% passive strategies, designed to track equity markets in a low cost vehicle, and 30% in Opportunistic Equity managers. This active sleeve is split equally between 4 active managers that are a representation of our top thematic investment ideas. Currently those themes are global dividend paying equities, long/short equity to hedge out some of the market risk, Asian Dividend paying equities with a focus on the Asian consumer, and Mid Cap growth stocks with a focus on technology. Our core fixed income manager allocates their 15% of the portfolio, actively managing both credit & duration risk. The Strategic/Alternative allocation is built to be the anchor of the portfolio and should not be highly correlated to either the equity or fixed income markets. This 39% allocation consists of the following: a portfolio focused on precious metals & natural resources to hedge the extremes of an inflationary or deflationary environment, an unconstrained absolute return manager that seeks to provide risk-adjusted returns in excess of inflation, and a passive position in Gold that represents a tactical overweight to the yellow metal in this era of hyper money creation.

Disclaimers

The views in this commentary do not take into account the particular investment objectives, financial situations, or needs of every individual client.

Investments are subject to market risk, including possible loss of principal. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risk are greater in emerging markets.

Commodities are volatile investments and should only form a small part of a diversified portfolio. There may be sharp fluctuations even during periods when prices are rising overall. The price of gold has been subject to dramatic price movements over short periods of time and may be affected by elements such as currency devaluations or revaluations, economic conditions within an individual country, trade imbalances, or trade or currency restrictions between countries. As a result, the market prices of securities of companies mining or processing gold may also be affected.

The S&P 500 is an unmanaged index of 500 widely held stocks. It is not possible to invest directly in an index.

Dividends are not guaranteed and can fluctuate.

Past performance does not guarantee future results. There is no assurance that these trends will continue.

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VIX is the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. The VIX is a widely used measure of market risk..

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U.S. Treasury securities are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value.

Gross Domestic Product (GDP) is the annual market value of all goods and services produced domestically by the US.

Material is provided for informational purposes only and does not constitute a recommendation. It has been obtained from sources believed to be reliable, but accuracy is not guaranteed.

Alternative investment strategies involve greater risks and are only appropriate for the most sophisticated, knowledgeable and wealthiest of investors.

Technical Analysis is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume.

Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity.

High-yield bonds are not suitable for all investors. When appropriate, these bonds should only comprise a modes portion of your portfolio.

Asset allocation and diversification do not ensure a profit or protect against a loss. Investments are subject to market risk, including possible loss of principal.

As federal and state tax rules are subject to frequent changes, you should consult with a qualified tax advisor prior to making any investment decision.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East), excluding the US & Canada. The Consumer Price Index (CPI) is a measure of the average change in consumer prices over time of goods and services purchased by households; it is determined monthly by the U.S. Bureau of Labor Statistics. Investors cannot invest directly in an index.