Investment Management

ADVISOR SERIES

"I keep a close watch on this heart of mine
I keep my eyes wide open all the time
I keep the ends out for the tie that binds
Because you're mine, I walk the line"
- Johnny Cash -

July 1, 2013

Dear Fellow Investors,

Certainly the first half of this year has been wonderful but you might not know it from investor sentiment. Five out of the six months were to the upside and finished with the S&P 500 increasing over 13% year to date. However, the month of June was down over 3% and has some investors questioning whether good times are over for the stock market.

If you recall our annual letter, we forecast the following for 2013:

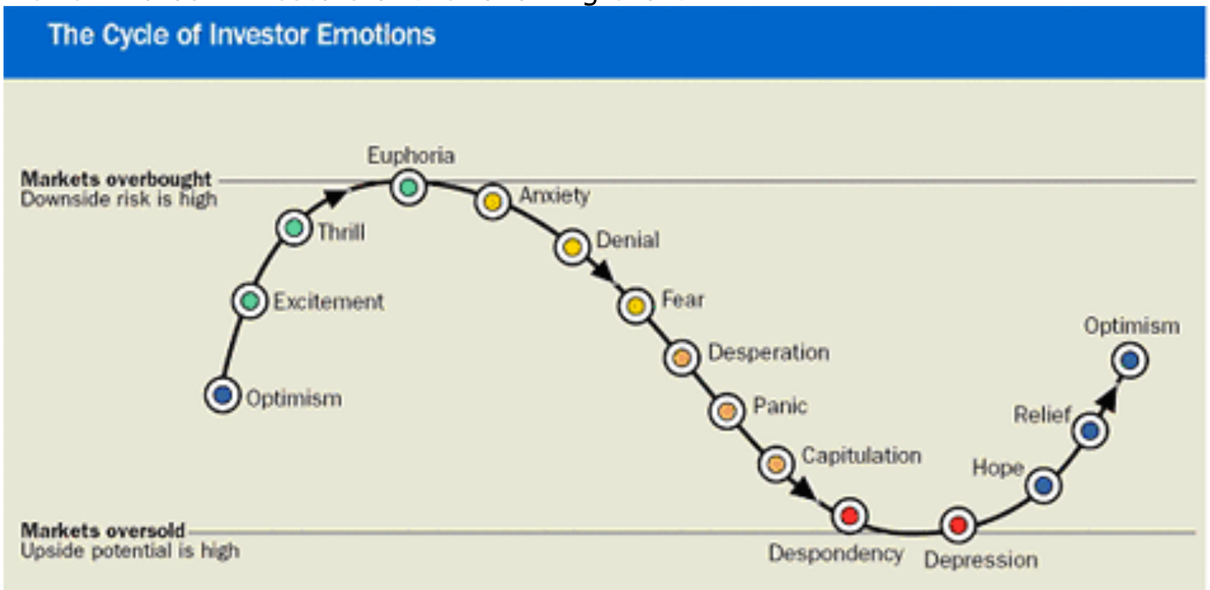
- S&P 500 to be up over 10%
- 10 year interest rates to start moving higher toward 3%
- Inflation to remain benign

We thought we were making forecasts that would take a year to come true – not six months! Obviously, we're only half way through 2013 but we feel good that our investors have capitalized on the value we saw in the stock market and have been positioned to minimize losses related to a rising interest rate environment.

These days, investor's emotions seem to continuously walk a line of disbelief. It's easy to see why. We're bombarded with negative news stories such as Europe's impending doom, China's bubble economy, Government debt problems around the world, the gradual socialism of the U.S., the collapse of paper money, etc, etc. However, the market has taken this all in stride and continued its march upward for the past 4 years now increasing by almost 150% since the March 2009 lows.

We believe June's poor performance will eventually go down as another example of an unwarranted initial reaction. After all, common sense tells us that the Federal Reserve's desire to stop stimulating the marketplace ("Tapering") means the economy is continuing to heal and regain its footing. A healing economy is a growing economy, which should lead to higher valuations. Also, common sense tells us it is better to own a rising income stream rather than a fixed income steam (especially in a rising interest rate environment), which should eventually translate into investors wanting more exposure to high quality, dividend-growing stocks.

We remind our investors of the following chart:



Investor's emotions move along with market performance. The best time to buy never feels like the best of times. If we examine today's investor we feel we have certainly moved beyond the despondency & depression stages, probably past hope, and into relief. At this point we have not seen evidence of true optimism and excitement amongst the average investor and certainly not thrill or euphoria. Throwing out all the valuation methodologies we utilize and looking at simple emotion tells us this market has the psychological make-up to continue marching higher. That doesn't mean it will be straight up or there won't be scary events and normal corrections along the way. But in our opinion, it does mean opportunity still exists in today's marketplace.

The great Johnny Cash may not have realized he said so much about the investment management industry with his lyrics but we can definitely relate. We strive to keep emotion out of investment decisions by keeping a close watch on our hearts. We are editors and interpreters of information by keeping our eyes wide open all the time. We value the relationships we've built with our investors in building those ties that bind. And because without our valued investors we are not in business, we gladly take on these responsibilities and will continue to walk the line.

We welcome your comments and thank you for your confidence.

Sincerely,

Blake Todd, AIF ®	Jarrett Perez, CFA
Portfolio Manager	Associate Portfolio Manager

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