TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

April 2012

Quarterly Insights

EXECUTIVE SUMMARY

Stocks Continue Ascent In First Quarter, Bonds Are Flat

In the First Quarter, the domestic S&P 500 Index rose 12.59%, continuing its ascent from a +11.82% Fourth Quarter. Other developed markets had similar double-digit returns. Solid U.S. economic performance continued as GDP growth and employment improved. Corporate profits remain strong. Bonds were flat as the Barclay's bond index rose a mere 0.08% in the First Quarter.

The Rally Still Has Legs

We predicted a 12% to 15% rise in the S&P 500 Index for 2012. The ascent of the market has not surprised us, but the speed of the ascent certainly has. Hopefully our 2012 market expectation will prove to be understated. We believe the rally still has legs.

Reasons to remain bullish include a continued U.S. economic recovery, strong corporate profits, a less appealing bond market, and an untapped investor base. Bear in mind that no one knows with 100% certainty what will happen going forward. We advocate strict adherence to target asset allocation. There are many good reasons to change your weighting of stocks and bonds. Market momentum is not one of them.

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First Quarter 2012

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The Rally Still Has Legs

The Strong First Quarter Stock Rally Should Not Signal A Move To The Sidelines

So far, so good! In our Quarterly Insights January 2012 report, we stated that "we believe the S&P 500 Index will rise 12% to 15%" in 2012. In the First Quarter, the S&P 500 Index rose 12.59%. Our 2012 stock market expectation has practically been met with three quarters to go. The ascent of the market has not surprised us, but the speed of the ascent certainly has. Is it time to take some stock exposure off the table and move the proceeds to bonds or cash? The short answer is an emphatic "no".

We believe the rally still has legs. Hopefully our 2012 stock market expectation will prove to be understated. Reasons to remain bullish include a continued U.S. economic recovery (even without help from the housing market), strong corporate profits, a less appealing bond market, and an untapped investor base.

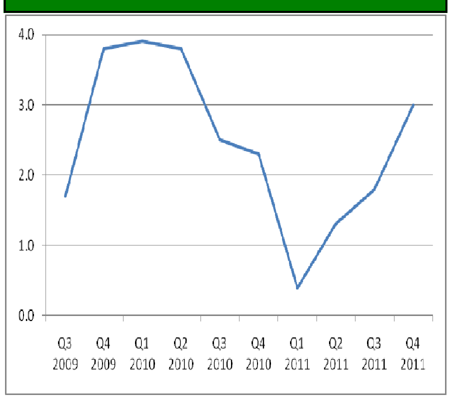
There Are Many Reasons To Remain Bullish

1. The US Economy Continues To Improve, Even Without Help From The Housing Market

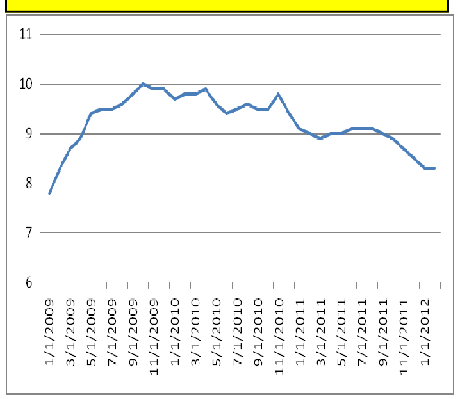
A key debate in the upcoming election will be the health of the U.S. economy. Numerous data points to an economy that continues to improve, even without help from the housing market.

Real gross domestic product (GDP) - the output of goods and services produced by labor and property located in the U.S. - increased to an annual rate of 3.0% in the Fourth Quarter (source: Bureau of Economic Analysis). There has been a steady drop in the unemployment rate, going from 9.1% (beginning of 2011) to 8.5% (end of 2011) to a current level of 8.2%. Consumer confidence has risen as the labor market has improved. This bodes well for consumer spending, which drives 70% of the U.S. economy.

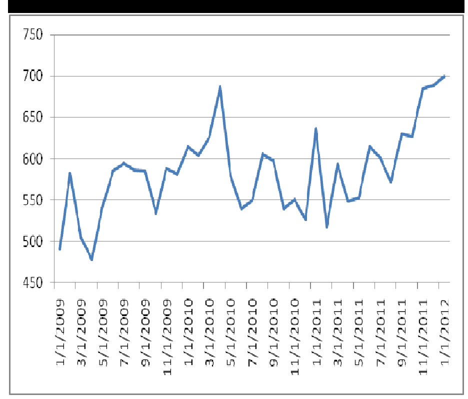
Seasonally Adjusted GDP (%)



Unemployment Rate (%)



Annual Housing Starts (thousands)



Through January 2012, the S&P/Case-Shiller Home Price Indices showed an annual price decline of 3.8% for its 20-city composite. But housing prices are a lagging indicator and by themselves do not indicate the state of the U.S. housing market. There are signs that the market is near a bottom. Annual housing starts reached 699,000 in January (a year-to-year 10% improvement). In the last six months, total home sales increased 13% - the bulk of the sales to investors who believe the prices have bottomed. Housing inventory fell in January to 6.1 months of supply, its lowest level since March 2005, and a level historically favorable for housing.

Housing accounts for 17% of GDP through private residential investment (5%) and consumption spending (12%). For quite a while, housing has impeded GDP. When the housing market improves, it will contribute positively to GDP and further fuel the economic recovery. This is bullish for stocks.

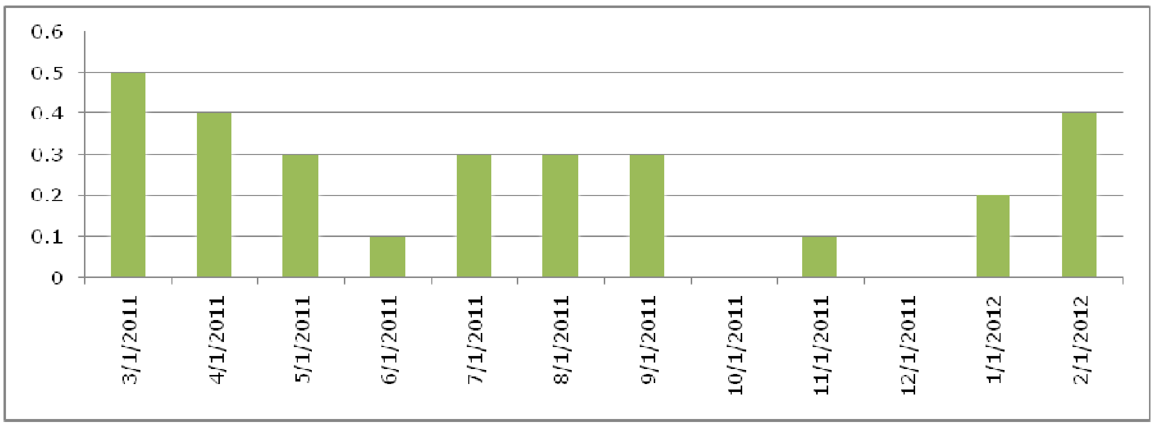
2. Corporate Profits Remain Strong

Companies in the S&P 500 Index are making more money than ever. S&P 500 earnings per share have roughly doubled since 2009. Earnings growth for this year is expected to rise 9%. The Operating Price/ Earnings Ratio is currently 14 as compared to its historical average (since 1989) of 25. Stocks will rise, even in the event of lower profit growth, if the P/E ratio moves higher towards it historical average. And we believe it will. So far, investors have largely ignored profit growth. We think this will change.

3. The Bond Market Is Less Appealing Than The Stock Market

Inflation is becoming more pronounced. The Consumer Price Index increased 2.9% over the last 12 months ended in February (source: Bureau of Labor Statistics). Month-to-month inflation rose 0.4% in February, the largest increase in 10 months.

Seasonally Adjusted Consumer Price Index - Change From Previous Month (%)



The 10-year U.S. Government Treasury is currently yielding 2.03% (April 11). Risk-free bond yields are not keeping pace with inflation. They have a negative real yield. Bonds are now riskier than stocks.

4. There Remains An Untapped Investor Base

Many investors stayed on the sidelines and missed the back-to-back double-digit quarterly gains in the stock market. What kept these investors away from the market? They feared potential disasters such as a massive debt crisis in Europe or a second recession in the U.S. These fears have subsided as evidenced by significantly lower market volatility. The gap between the daily high and low for the S&P 500 Index averaged about 0.9% in the First Quarter. Last fall, it averaged three times that level.

Investor attention will likely turn to strong corporate profits and any potential negative headwinds in the bond market. We anticipate a shift in sentiment towards stocks. Increased stock demand will drive up prices.

Resist The Urge To Change Your Target Asset Allocation

It is easy to get caught up in a strong First Quarter for stocks and a weak First Quarter for bonds. And it is easy to theorize that stocks should out-perform bonds for the rest of 2012. But bear in mind that no one knows with 100% certainty how stocks and bonds will perform going forward. There are reasons why you have a specific portfolio target asset allocation (relative weight of stocks and bonds). Considerations include income needs, legacy considerations, risk control, risk capacity, and risk tolerance. Unless any of these factors have changed, resist the urge to change your target asset allocation. Stay disciplined. Don't chase heat.

Stock Market Spotlight

Double-Digit Stock Returns Reached For The Second Quarter In A Row

In the First Quarter, the domestic S&P 500 Index rallied 12.59% to follow up an 11.82% Fourth Quarter. Inspired by double-digit returns for the second quarter in a row, some investors came off the sidelines as evidenced by the first positive stock money flows in several years (see page 6). Continued economic growth, a lower unemployment rate, and higher consumer confidence should help fuel future positive stock momentum. But the biggest factor we view as bullish for stocks is company profits.

Companies Are More Profitable Than Ever

Throughout the tepid economic recovery, investors have had to deal with an assortment of challenges including European debt crises, Middle Eastern hostilities and oil shocks, a Japanese earthquake and tsunami, and various financial scandals. Yet through it all companies have adapted to the barrage of obstacles and become more profitable than any time in U.S. history.

Corporate earnings have surged over the last three years as corporations have reigned in expenses. After a traumatic fall in 2008 as the financial crisis peaked, S&P 500 earnings per share have roughly doubled since 2009. The earnings prospects for 2012 also look good. In the First Quarter, Standard & Poor's has calculated preliminary earnings to be $25.84 per share, which is more than a 20% increase from the same quarter a year ago and an historic high. Consensus expectations are for an overall 9% earnings growth in 2012.

S&P 500 Earnings Per Share (source: Standard & Poor's)

Year	S&P 500 EPS	Earnings Growth	Index*	Index Return*
2006	$81.51	16.56%	1418.30	13.62%
2007	$66.18	(18.81%)	1468.36	3.53%
2008	$14.88	(77.52%)	903.25	(38.49%)
2009	$50.97	242.54%	1115.10	23.45%
2010	$77.35	51.65%	1257.64	12.78%
2011	$86.95	12.41%	1257.60	0.00%

* Dividends excluded

So Far, Investors Have Largely Ignored Profit Growth

Many investors remain concerned about, or are in denial of, an economic recovery. They have either stayed on the sidelines altogether or have moved to bonds. Either way, they have avoided stocks. This is evident in looking at money flows over the last few years. Great trends in profit growth have largely gone ignored.

2011 exemplifies this phenomenon. The S&P 500 earnings per share increased by 12.41%. Half of the earnings growth came from increased profit margin and the other half from increased revenue. Yet the S&P 500 Index barely moved while other world markets were down.

We saw the first signs of improved investor stock sentiment in the First Quarter. Will profit growth continue at a pace that will finally inspire investors?

Attractive Profit Growth Can Continue With A Tepid U.S. Economy

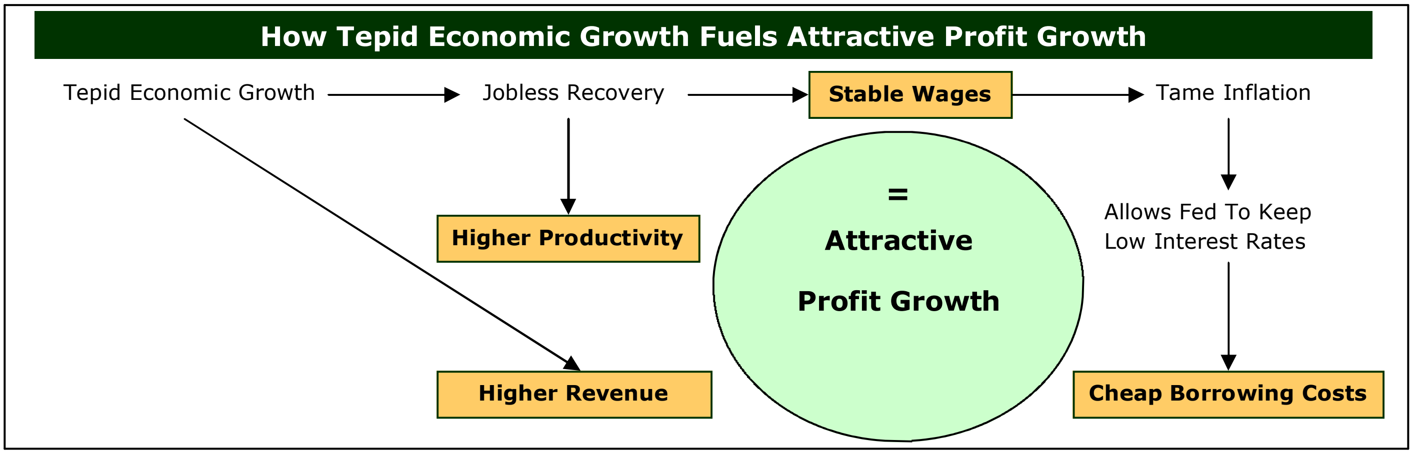
Real GDP increased to an annual rate of 3.0% in the Fourth Quarter. It is counterintuitive, but tepid U.S. economic growth can be the perfect recipe for a much higher relative rise in corporate earnings growth. Look at what has happened since the economy began its recovery in mid 2009.

Company revenues steadily increased in the economic recovery. The recovery can be described as "jobless" in the sense that there were many more jobs lost through mid 2009 than were gained back after mid 2009. A jobless recovery has allowed companies to keep their best employees because outside job opportunities are limited. At the same time, these limited outside job opportunities have allowed companies to stabilize wages.

Higher employee productivity through a "survival of the fittest" employee roster is a direct result of a jobless recovery. Companies have been doing more with less people. To illustrate this point, revenues per employee have grown from $378,000 in 2007 to $420,000 today. By keeping employee wages somewhat stable alongside an 11% rise in revenues per employee, company profits increase.

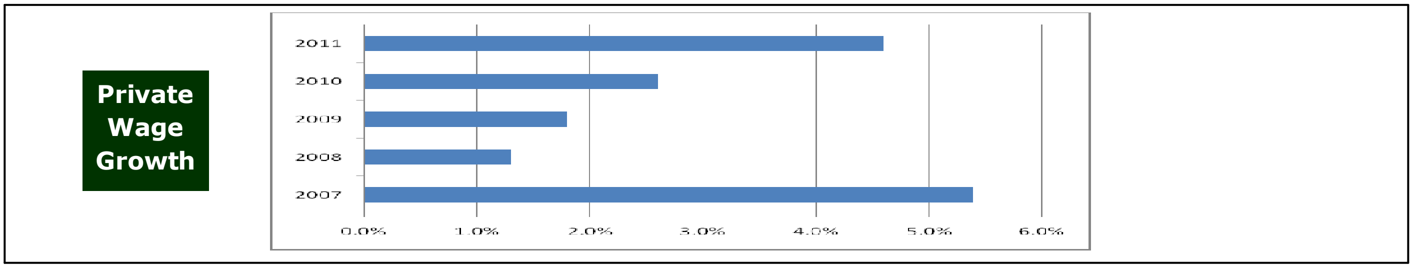
Stable wages foster tame inflation. And tame inflation has allowed the Fed to continue its goal to stimulate the economy through low interest rates. These low interest rates result in cheap borrowing costs for companies (bonds can be issued at very low rates), which in turn augment company profits.

In summary, attractive profit growth through tepid economic growth comes from the combination of higher revenue, higher productivity, stable wages, and cheap borrowing costs.



Even If Profit Growth Slows Down, Stocks Are Well Insulated

There are many factors that can inhibit profit growth. For instance, private wage growth jumped in 2011.

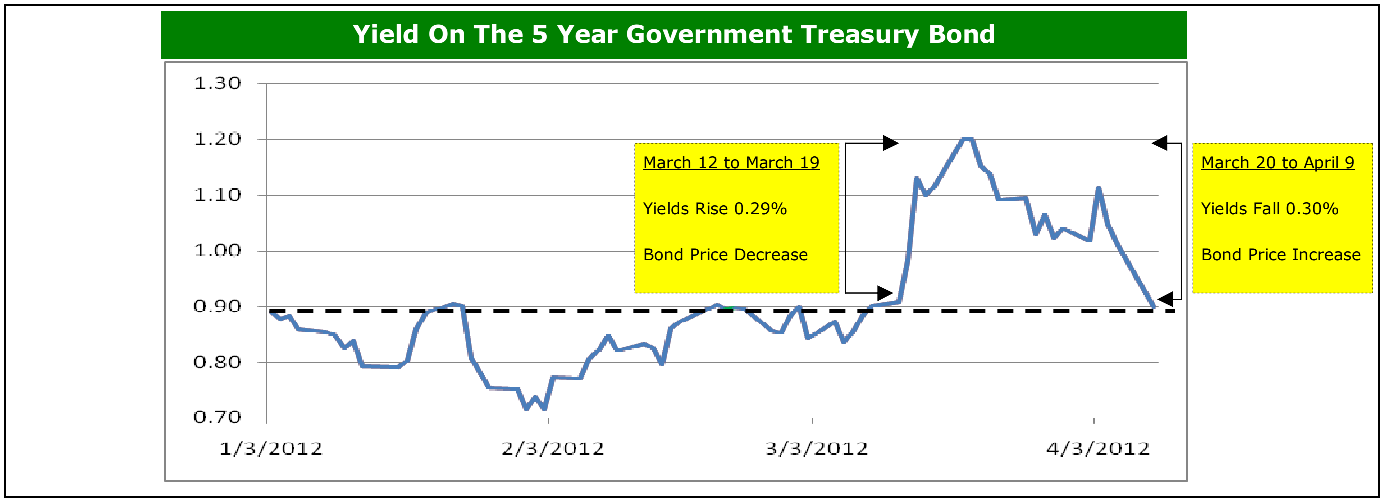


If profit growth slows down, we do not think this will harm the stock market if the economy remains in recovery. Earnings growth has far outpaced market returns over the past few years. The Operating Price/Earnings Ratio is currently 14 as compared to its historical average (since 1989) of 25. Stocks can rise with lower profit growth if the P/E ratio moves higher towards its historical average. We think it will.

Bond Market Spotlight

Bonds Remain Vulnerable

The Barclay's Capital U.S. Government / Credit Bond Index, a broad-based representation of bond performance, returned a negligible 0.08% in the First Quarter, a stark contrast to its high (+8.72%) 2011 return. Bonds remain highly vulnerable to spikes in interest rates (as interest rates rise, bond prices fall). A quick spike in early March was hidden to most investors because the bond market rallied near the end of the quarter (the yield returned to its starting point) . March illustrates how quickly rates can move.



Money Flows Continue To Bonds Despite Low Interest Rates And Growing Risk

Lipper measures the size of investments in stock and bond mutual funds, and calls this measurement "Money Flows". This acts as a gauge for demand and can be insightful. Bond market money flows have been incredibly strong over the last few years while investors have been simultaneously redeeming stock funds. This has continued despite low market interest rates, growing bond risk, and a rising stock market.

Mutual Fund Money Flows Over The Last 9 Months ($ billions) - Source: Lipper

	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb
STOCKS	($19.8)	($31.2)	($54.4)	($13.4)	($10.9)	($22.3)	($24.8)	$16.8	$22.5
BONDS	$21.2	$13.1	$19.1	$10.1	$11.3	$20.6	$9.3	$30.7	$30.9

We Remain Skeptical Of Bonds But Maintain A Disciplined Asset Allocation Strategy

Stock money flows have finally turned positive in 2012. It appears the stock influx has come from sideline investors versus bond investors because bond money inflows have also risen. However, bond money flows could easily reverse if bonds continue to be challenged relative to stocks. We remain skeptical of the bond market because it does not make sense that investors will continue to aggressively buy bonds without concern for price. As it stands right now, investors are so overly risk averse that they are willing to pay for negative real yields. We anticipate a changing investor affinity towards bonds sooner or later.

No one knows with 100% certainty which way the markets will move. This is why we always adhere to disciplined asset allocation and hold bonds for our clients where warranted. Right now the bond market is "yield challenged". Our portfolio has a short duration to minimize interest rate risk. We hold corporate bonds, high yield bonds, Treasury Inflation Protected Securities (TIPS) and an interest rate hedge.

Your Portfolio

The stock market continued its ascent in the First Quarter. In anticipation that the S&P 500 Index would rise 12% to 15% in 2012, we made some portfolio adjustments during the quarter. There was a theme to these adjustments. We wanted more exposure to companies that are better positioned to benefit from an improving economy. Put another way, it was time to rotate away from some of the defensive stocks.

We sold Becton Dickinson (symbol: BDX), a leading medical supplies company that was very stable but had only a 2% to 4% anticipated market growth. For many of the same reasons, we sold Clorox (symbol: CLX), a leading consumer brands manufacturer. Also sold was Peabody Energy Corp. (symbol: BTU) because it was a disappointment, as well as a small portion of Starbucks (symbol: SBUX) because it has risen considerably.

We purchased Union Pacific (symbol: UNP), the largest North American railroad, because it is poised to flourish in an improving economy. For similar reasons, we bought Toyota Motor Corp. (symbol: TOY). We purchased Lowes Companies Inc. (symbol: LOW) for advance exposure to a potential housing turnaround.

Our bond portfolio was hardly adjusted in the First Quarter and we do not anticipate changes in the near term. The portfolio has a short duration to ensure that it is less susceptible to rising interest rates.

Over the next several months, we anticipate further adjustments to the stock component of your portfolio as we believe the rally still has legs. Stay tuned for updates.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

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