TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

April 2013

Quarterly Insights

EXECUTIVE SUMMARY

U.S. Stocks Continue To Rally In The First Quarter

In the First Quarter, the domestic S&P 500 Index rose 10.61% to follow up a 16.00% performance in 2012. Foreign markets did not fare nearly as well. Our portfolio benefited from a 90% domestic exposure. Most investors got it wrong as evidenced by mutual fund flows into foreign versus US stocks by a ratio of 2:1. Positive trends included further signs of improvement in the housing market and strong consumer confidence. U.S. Treasury yields hardly moved. The Fed Target rate did not move at all. Just as in 2012, stocks were much more exciting than bonds.

Don't Fight The Fed

We expect the Fed will remain accommodative for the next year or two. The Fed target rate should remain unchanged at 0 - 0.25% because the unemployment rate will not likely drop from 7.7% to 6.5%, and core inflation will not likely reach 2.5%.

Over the last quarter century, annualized stock returns are triple the level (19.61%) with accommodative Fed Policy versus restrictive Fed policy (6.84%). We have no plans to "fight the Fed" by reducing stock exposure. The historical odds heavily favor stocks.

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First Quarter 2013

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Don't Fight The Fed

The Fed Will Help When The Economy Needs It

Long-time hedge fund manager and author Martin Zweig passed away in late February. He is best known for his words "don't fight the Fed". This axiom cuts through the confusion of a multitude of economic indicators and numerous pundits. The point is simple: the Federal Reserve (Fed) will help when the economy needs it.

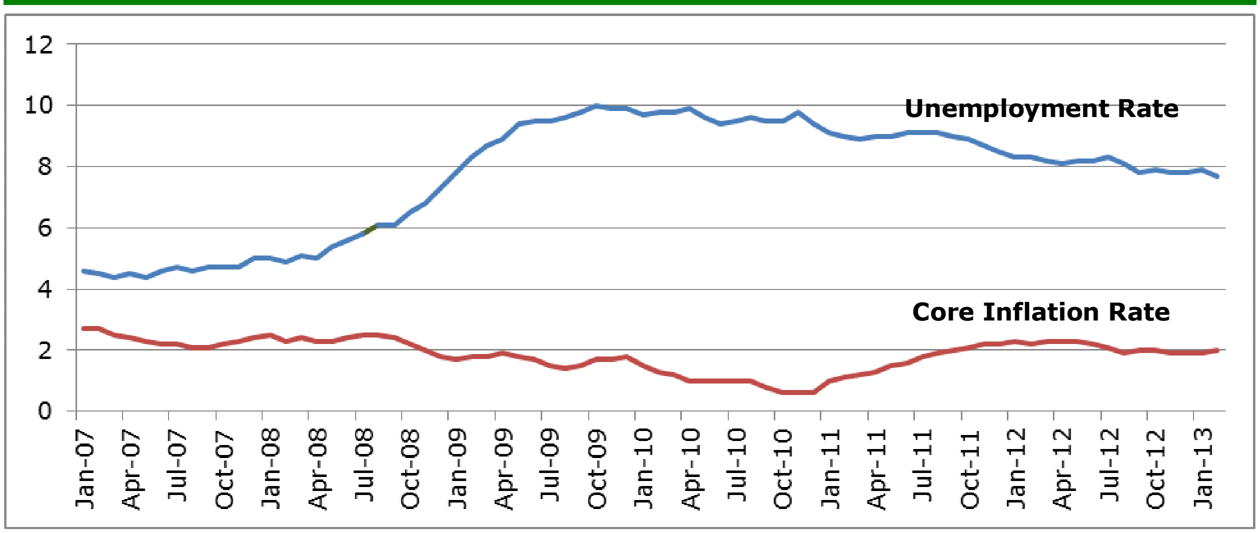
The Fed has a dual mandate to promote two opposing objectives: full employment and stable prices. Why are these objectives deemed "opposing"? As the economy moves towards full employment, this creates higher wage pressure, which in turn causes inflation (a move away from stable prices).

The Fed pursues its dual mandate through interest rate policy. It sets the Fed Funds Target Rate, the interest rate at which depository institutions actively trade balances held at the Federal Reserve with each other. "Accommodative" policy (lowering and then maintaining the target rate) promotes economic growth. "Restrictive" policy (increasing and then maintaining the target rate) curtails economic growth.

The Fed Has Been Aggressively Accommodative Since September 2007

The Fed has been aggressively accommodative since September 2007: the Fed Funds Target Rate has dropped from 5.25% (September 17, 2007) to 3.00% (January 30, 2008) to 1.00% (October 29, 2008) to 0 - 0.25% (December 16, 2008 to now). During this time frame, unemployment has fallen from a peak 10% (October 2009) to a current 7.7%. Inflation has been steadily hovering around 2.0%.

Percentage: Core Inflation and Unemployment (source: Federal Reserve)



We Expect The Fed Will Continue To Be Accommodative For The Next Year Or Two

Will the Fed continue to be accommodative? We believe it will for the next year or two. In December, the Fed agreed to keep short term interest rates at zero until unemployment reaches 6.5% or lower. Since it took more than three years for unemployment to fall 2.3% from its peak, it should take considerable time to fall at least another 1.2%. The Fed has also stated that short-term rates will remain unchanged until core inflation reaches 2.5%. Core inflation has not been at 2.5% in nearly five years. Explicitly tying rates to employment and inflation targets is unprecedented. It seems clear the Fed will continue trying to stimulate the economy.

Accommodative Fed Policy Is Good For Stocks And Not So Good For Bonds

US GDP growth for 2013 is estimated at a tepid 2.0% (source: The Economist). The Fed is stimulating the economy by setting interest rates at zero and buying bonds (a program known as quantitative easing). These bond purchases total $85 billion per month: $45 billion in long-term government bonds and $40 billion in mortgage-backed securities. There are no signs that the bond purchases will cease.

Accommodative Fed policy benefits stocks in the following ways:

1. Stocks are more attractive than low-yielding bonds. The Fed bond-buying initiative is intended to prod investors to shift money from low-yielding bonds to stocks, lifting stock prices and making consumers feel wealthier so they will spend more.
2. Low interest rates allow corporations to refinance their existing bonds or take on new debt at low rates. This lowers their interest expense and increases profit, which helps stocks. Bonds become less attractive.

Stock Returns Have Been Triple With Accommodative Versus Restrictive Fed Policy

Over the last quarter century, stock returns have been triple with accommodative versus restrictive Fed policy. Given our expectation that the Fed will continue to be accommodative for the next year or two, we have no plans to "fight the Fed" by reducing stock exposure. The historical odds heavily favor stocks.

Annualized Stock Return: Accommodative Versus Restrictive Fed Policy

Begin Date	End Date	Duration (Years)	Fed Policy	Annualized Return
09/18/2007	To Be Determined	To Be Determined	Accommodative	To Be Determined
06/30/2004	09/17/2007	3.22	Restrictive	8.35%
01/03/2001	06/29/2004	3.49	Accommodative	(4.77%)
06/30/1999	01/02/2001	1.51	Restrictive	(4.35%)
09/29/1998	06/29/1999	0.75	Accommodative	40.31%
03/25/1997	09/28/1998	1.51	Restrictive	20.69%
07/06/1995	03/24/1997	1.72	Accommodative	11.36%
02/04/1993	07/05/1995	2.41	Restrictive	17.05%
06/01/1989	02/03/1993	3.68	Accommodative	9.52%
03/01/1988	05/31/1989	1.25	Restrictive	9.21%
10/27/1987	02/29/1988	0.34	Accommodative	60.68%
12/21/1986	10/26/1987	0.85	Restrictive	(9.93%)

Summary: Accommodative Versus Restrictive Fed Policy (Dec. 21, 1986 To Date)

Fed Policy	Annualized Return
Accommodative	19.61%
Restrictive	6.84%

Stock Market Spotlight

The U.S. Market Continued To Rally In The First Quarter

In the First Quarter, the domestic S&P 500 Index rose 10.61% to follow up a 16.00% performance in 2012. The market rallied despite company earnings being up only 0.7% (source: S&P Capital IQ). Positive trends included further signs of improvement in the housing market and strong consumer confidence.

Equity Index Performance

Index	Q1 2013
S&P 500 (Domestic)	10.61%
Russell 2000 (Small Cap)*	12.08%
MSCI EAFE (Foreign)**	5.23%
MSCI Emerging Markets	(1.57%)
MSCI EMU (European Monetary Union)	(0.30%)
MSCI Japan	11.70%

* Performance data does not include dividends ** Europe, Australia and the Far East

The U.S. Market Is Still The Place To Be - Most Investors Got It Wrong In Q1

U.S. stocks fared very well against foreign stocks in the First Quarter. Our portfolio has roughly a 90% domestic stock exposure, and this proved to be a sound strategy from a risk/return tradeoff.

There was a considerable foreign stock performance lag. Emerging Markets had an awful First Quarter, led by China (- 4.54%) and India (- 2.55%). The problems in Europe continued as evidenced by a flat EMU Index. Japan (+11.70%) was a bright spot. We see no reasons to deviate from our 90% domestic stock weighting.

As evidenced by mutual fund flows, most investors got it wrong in the first two months of the year. They bought foreign versus domestic stocks by a ratio of 2:1.

Mutual Fund Flows For The First Two Months Of 2013 ($ billions; Source: ICI)

Asset Class	Fund Inflow/(Outflow)	Breakdown
Stocks	+51.92	Foreign:+34.91; U.S.:+17.01
Bonds	+52.91	
Money Market	(42.70)	

The Technology Sector Was A U.S. Sore Spot In An Otherwise Great Q1

Health Care (+15.22%) and Consumer Staples (+13.77%) led Q1 sector performance. Technology (+4.21%) and Materials (+4.17%) were the laggards. Our neutral weights to Health Care, Staples and Materials did not deter portfolio performance. Our over-weight to Technology did. We are optimistic that Technology will rebound.

We Continue Our Style Rotation To Higher Earnings Quality Companies

We continue to move towards higher earnings quality companies. These are companies that have financial strength, a well-established market niche, and an ability to weather tepid economic growth should it occur.

Bond Market Spotlight

Bond Returns Remain Mediocre In The First Quarter

The Barclay's Capital U.S. Aggregate Bond Index, a broad-based representation of bond performance, fell 0.1% in the First Quarter after finishing 2012 up a mediocre 4.03%. The Fed Target rate did not move at all, nor does it appear that it will move in the near future. Treasury yields barely moved. Stocks out-performed bonds by a wide margin in the First Quarter, as well as in 2012.

Key U.S. Interest Rates	Dec. 31, 2012	March 31, 2013	Change
Federal Reserve Board Funds Target Rate	0-0.25%	0-0.25%	No change
5-Year Treasury (Constant Maturity)	0.73%	0.78%	+ 5 basis points
10-Year Treasury (Constant Maturity)	1.76%	1.87%	+11 basis points
30-Year Treasury (Constant Maturity)	2.95%	3.12%	+17 basis points

Note: 100 basis points (bp) = 1.00% Source: Telemet

Why Hold Bonds Right Now?

We don't blame you if you are questioning the rationale of holding bonds right now. Stocks are up a lot and bonds are not. The 10-Year Treasury continues to have a negative real rate of return - it yields 1.87% and inflation is at 2.00% (source: Bureau of Labor Statistics). We know we sound like a broken record when stating that "we hold bonds where warranted as part of a disciplined asset allocation". Why do it?

We do it because we don't know with 100% certainty how stocks and bonds will perform going forward. They may rise, fall, or be flat. We assign a probability to each scenario when we set portfolio strategy.

The biggest risk to bonds is interest rates. When interest rates rise, bond prices fall (yields increase). Given a tame 2.0% inflation (source: Bureau of Labor Statistics) and knowing the Fed plans to keep its Target Rate near zero until the unemployment rate reaches 6.5%, record-low interest rates should remain for the rest of 2013. Over the next 9 months, we assign a very low probability that bonds will rise more than 5% (there is little room for interest rates to fall), a very low probability that bonds will fall more than 5% (interest rates are not poised to rise), and a very high probability that bonds will be up or down less than 5%. Given the strong head start for stocks in the First Quarter, we assign an equal probability for the remainder of 2013 that stocks will be up more than 5%, down more than 5%, or somewhere in between.

	9 Possible Outcomes: Balanced Portfolio Expected Performance (Rest Of 2013)	Bond Performance Going Forward For The Rest Of 2013		
		Up 5%+ Very Low Probability	**Up or Down < 5%** Very High Probability	**Down 5%+** Very Low Probability
Stock Performance Going Forward For The Rest Of 2013	**Up 5%+** Equal Probability	N/A	Up significantly, modestly, or slightly	N/A
	Up or Down < 5% Equal Probability	N/A	Up modestly, flat, or down modestly	N/A
	Down 5%+ Equal Probability	N/A	**Down by less than the S&P 500 Index**	N/A

We have 9 possible joint outcomes for a balanced portfolio, and only three if we discount the six outcomes that have "very low probability" bond performance. We want bonds for the outcome highlighted in red.

We Hold Bonds Right Now As Buffer Protection In The Event Stocks Fall Significantly

Let's examine the three potential balanced portfolio performance outcomes noted on the previous chart:

1. Stocks Up 5%+ / Bonds Up or Down < 5%

Under this scenario, a balanced portfolio could

- Be up significantly (stocks up significantly more than 5% and bonds up close to 5%)
- Be up modestly (stocks up 5% - 6% and bonds are flat)
- Be up slightly (stocks up 5% - 6% and bonds fall less than 5%)

No matter what happens, we expect the balanced portfolio will show positive performance. This outcome is the least concerning of the three outcomes.

2. Stocks Up or Down < 5% / Bonds Up or Down < 5%

Under this scenario, a balanced portfolio could

- Be up modestly (stocks up close to 5% and bonds up close to 5%)
- Be flat (stocks up/down close to 5% and bonds down/up close to 5%; both stocks and bonds are flat)
- Be down modestly (stocks down close to 5% and bonds down close to 5%)

No matter what happens, we anticipate the worst case is the balanced portfolio down close to 5%. This is not the outcome we seek, but is a loss that would be manageable and recoverable.

3. Stocks Down 5%+ / Bonds Up or Down < 5%

Under this scenario, a balanced portfolio could

- Be down slightly (stocks down 5% - 7% and bonds up close to 5%)
- Be down modestly (stocks down 5% - 7% and bonds flat; stocks down 8% - 12% and bonds up close to 5%)
- Be down more than modestly (stocks down 8% - 12% and bonds in a range between +5% and –5%)
- Be down considerably (stocks down over 12% and bonds in a range between +5% and –5%)

No matter what happens, we anticipate the balanced portfolio will exceed the performance of the S&P 500 Index. This is the buffer protection we need to partially protect your portfolio in a turbulent market.

We Are Prioritizing Safety Versus Yield

We want bonds right now as buffer protection in the event of a stock correction (stocks fall greater than 12%). In the current record-low interest rate environment, we believe it is a poor strategy to have high-yield bonds. It is our view that higher earnings quality stocks offer a better risk/return tradeoff than high-yield bonds when seeking returns greater than 5%. There will be a better time to hold high-yield bonds.

Through late March, our bond portfolio was comprised of short-term corporate bonds, high-yield corporate bonds, and Treasury Inflation Protected Securities (TIPs). A main feature of our bond portfolio was, and continues to be, its low duration (we want low bond price sensitivity to a 1% rise in interest rates).

We are prioritizing safety versus yield. At the end of March, we lowered the risk of our bond portfolio by selling the high-yield corporate bonds and replacing them with a high quality corporate bond.

Your Portfolio

The S&P 500 Index had a very strong First Quarter (+10.61%), reaching an all-time high on the last trading day of March. Our outlook remains positive yet guarded. We recently bought stocks consistent with our shift to "higher earnings quality" companies. Our large cap stock focus remains as the companies purchased are larger in terms of market capitalization than the ones sold.

We lowered Materials exposure by selling BHP Billiton (symbol: BHP), the largest publicly traded mining conglomerate, and Sealed Air (symbol: SEE), a leading packaging materials company. BHP is unattractive because of slower global GDP growth and signs of commodity demand weakness in China. SEE's heavy revenue dependence on Europe (30%) and Asia (26%) became concerning. We also sold YUM Brands (symbol: YUM), which owns KFC, Pizza Hut and Taco Bell, because of its profit dependence on China (42%).

We bought Covidien PLC (symbol: COV), a leader in medical devices, to increase Health Care exposure as the sector continues to undergo significant changes in the U.S. We also bought Fiserv Inc. (symbol: FISV), a leader in electronic daily transaction processing for banks. Finally, we bought General Electric (symbol: GE), a true "blue chip" stock with a larger than average dividend. We shifted the bond portfolio to a more conservative stance: GE Capital bonds were purchased to replace high yield corporate bonds (symbol: HYG).

Over the next few months, we anticipate further adjustments to both the stock and bond components of your portfolio. Market conditions will change and we believe in style rotation. 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,

TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

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Disclaimer

The information presented herein is intended for informational purposes only. All views are subject to change based on updated indicators. The recommendations made in this publication are made without regard to individual suitability. Investors should consider their own needs and objectives before making any investment decision.

Commentary in this review reflects our portfolio strategy. Many of our clients have different objectives and circumstances which are reflected in unique portfolio considerations. Please note that accounts may not contain all elements of the strategy discussed here. Additionally, individual client customizations and start dates may preclude certain elements of this strategy from being implemented.

Past performance is no guarantee of future results. A risk of loss is involved with investments in stock markets.