High Desert Investment Advisors, LLC

Albuquerque, NM

February 3, 2013

Friday, February 03, 2012, after being out for about 6 months, we recommended reinvesting in the equities market (the S&P Index closed at 1345). Today, it is one year later (the S&P Index is at 1500+), and the underlying fundamentals of the US economy are gaining momentum. It is time consider adding to your commitment to equities, replacing fixed income securities as they return to the portfolio at maturity or are called, with investments in your equity allocation.

Most of our investors have allowed the percentage of fixed income to creep higher (as we have recommended)over the past 5 years. It is now time to move your portfolio allocations back to their targeted percentage allocations - between equities and fixed income. For most, this means investing an estimated 10% to 15% of your total portfolio into your equity mutual fund portion, allowing the fixed income portion to shrink.

RECOMMENDATION:

1. **Review your investment strategy and focus on your targeted mix of equities to Fixed Income.**
2. **For the coming 6 months, invest available cash that comes into your account the pay-down of fixed income securities, into your equity mutual fund allocation, rebalancing as you invest.**
3. **When the targeted percentage of equities to fixed income is achieved, then cease this process and reinvest all cash that comes into the account from maturing securities, into fixed income assets – bonds, preferred stock, structured product, multiple limited partnerships, high dividend stocks.**

Example: Your targeted asset allocation is 50% equities and 50% fixed income. Today, that allocation is 38% equities and 62% Fixed Income. Over the next six week, move money out of Fixed Income and into equities so that your investment allocation is at 50% equities and 50% Fixed Income.

Note: Waiting for fixed income securities to pay off, creates an effect dollar cost averaging process. Market projections have low probabilities, and this process spreads the entry risk as we invest. Today, the stock market is pretty overbought and is likely to cooperate with our strategy by going down in price.

Contact us sometime during the next couple of weeks (We will be out of town from Feb. 13 thru Feb 19) to make a plan. We need to have instructions from you before making any changes in your portfolio, assuming you want to pursue these recommendations.

Iris Brackett	505-220-0571	irisbrackett@q.com
Dick Brackett	505-797-2644	rbracket@newmexico.com

DISCUSSION:

- When we analyze the cyclical nature of the economy, it appears likely that the current market rally will continue into March/April 2013. Assuming this is correct, by the end of March or in April, we can expect a significant retracement of stock market valuations.
- Interestingly, some of the best historical indicators do not seem to agree with this analysis – specifically, one in particular is the Velocity of Money.
- It appears that the distortions caused by extended expansion of the monetary aggregates - controlled by the Federal Reserve - and the severe US debt growth curve - generated by excessive spending over income at the national government level - are distorting some of the usually dependable indicators, as both government spending and Federal Reserve actions are reversed.
- These distortions cause us to have to look elsewhere to forecast the progress of the US economy: Commercial Paper data for short term private sector growth, Commercial and Industrial Loans data to indicate investment growth, M1 and M2 money supply data as significant influencers of economic growth, specific segments of the GDP.
- Because government expenditures are such a large component of the US GDP, this component of the data will unduly influence the GDP numbers as spending is cut.
- It becomes important to separate the private from the public economies and to understand if, and how, the private sector is changing – What does the private sector growth curve look like?

Our forecast for 2013 and beyond, suggests that the US long term economic growth rate is building momentum, and that this growth rate can compensate for the effect of shrinking government expenditures.

Iris and I will be available and seeking input from you as to your decision on this recommendation.

Iris Brackett	505-220-0571	irisbrackett@q.com
Dick Brackett	505-797-2644	rbracket@newmexico.com