January 2, 2013

Dear Client,

Happy New Year! We enjoyed many blessings in 2012. The world did not end, as prophesied by both Harold Camping and the Mayans, nor did the European Community implode, as forecast by many. The U.S. economy enjoyed improving employment, lower energy prices, a declining rate of inflation and, after six years of declines, a reversal in real estate prices. Interest rates stayed at historic low levels, which was good news for borrowers, bad news for savers and a mixed bag for investors. The final miracle technically occurred this year as the powers that be in Washington avoided plunging a knife into the heart of the U.S. economy by passing legislation to avert the fiscal cliff.

While both the Euro Zone and Japan lost the struggle to expand their economies in the past year, the U.S. continued moderate GDP (gross domestic product) growth. Despite the weak global economic performance, stock markets around the world advanced. Domestic stock indices increased in the mid-teens percentage for the year with the Dow Jones Industrial Average the exception with half that growth. Treasury bonds earned 1-2% while corporate bonds finished up in the high single digits for the year. The accounts I manage performed nicely on an actual basis, up on average a bit over 7% for the year, but were weak compared to the stock market indices referenced above due to less than full deployment in stocks.

Account performance varied by the amount invested in stocks and the maturity of the portfolio. The higher the amount invested in stocks, the higher the return for the year was generally true. However, more recently constructed portfolios trailed the performance of more mature one, as newer portfolios hold more currently out of fashion position comparatively. This is the essence the investment approach I use. I look for what I believe to be quality companies selling at a discount due to a temporary issue. Over time the issue is addressed and the stock price improves. Also it is normally the case that my accounts trail in a stronger stock market because I use a balanced method of investing, meaning not fully exposed to stocks. The value of this style has been proven over time, capturing most or all of the market returns with much less volatility. However it takes a full market cycle, with both the up and the down trend complete, for the performance benefit to show up in the numbers. The required ingredient for success is patience.

As for the New Year, we go forward knowing what tax rates are going to be on income, dividends, capitals gains and estates for the foreseeable future. And the country continues to recover from the recession of 2008. But there are challenges as well, mostly the random unknowable kind but also those manufactured in Washington, such as the upcoming battle over the debt ceiling. I am sure we will survive.

Enclosed please find your year-end portfolio report that includes a schedule of realized capital gains and losses and a list of management fees paid to New West Investment Management during calendar year 2012, if applicable. Please note that I did not attempt to offset long-term capital gains at year-end as I would normally, due to the possibility of capital gains tax increases starting in 2013. I hope the New Year is prosperous for all.

Best regards,

Peter V. Hedberg