Economic and Market Overview

First Quarter 2013

ENDOWMENT
WEALTH MANAGEMENT

Economic and Market Overview

First Quarter 2013

The following commentary summarizes prior financial market activity and uses data obtained from public sources. This commentary is provided to financial advisors and their clients as a resource for the management of assets and evaluation of investment portfolio performance.

The Economy

Seemingly oblivious to the political wrangling over the budget and the country's long-term fiscal state, economic activity continued to steadily improve in the first quarter as many segments of the economy posted slight gains over the previous quarter. Domestically, housing was once again a bright spot, with several measures of the sector modestly advancing. Manufacturing rebounded strongly after a period of stagnation. Consumer confidence also improved during the quarter, likely a result of the lack of negative fallout on the markets from the budget negotiations. Employment gains also contributed to the upbeat tenor of the economy, financial markets and consumer confidence.

In February, the U.S. employment situation showed signs of a long-awaited turnaround, although there were certainly mixed signals in the data. And to be sure, any slight improvement in payrolls was not enough to cause the Federal Open Market Committee (FOMC) to veer from its aggressive monetary policy. At the end of the fourth quarter, the FOMC instituted a policy of explicitly targeting certain economic conditions – the unemployment rate and inflation rate – as indications of when the FOMC may begin to exit its current policy. Many economists believe that employment gains will grow modestly but could potentially be impacted by the budget sequestration and other fiscal negotiations.

The Fed remained in a "steady-as-she-goes" posture during the first quarter, standing pat after implementing an additional program of securities purchases in the fourth quarter. It is now purchasing $85 billion per month of mortgage-backed and Treasury securities. The minutes of the latest FOMC meetings revealed a range of opinions on when to scale back purchases and start exiting the strategy. The consensus among economists is that no change in policy will occur for at least the next several months.

Globally, after two quarters of generally being out of the headlines, the eurozone's fiscal issues once again emerged as a major factor impacting the markets. In this latest installment, the small country of Cyprus experienced a crisis when two of its largest banks needed to be bailed out due to their significant exposure to Greek sovereign debt. The so-called "troika" – the European Central Bank, European Commission and International Monetary Fund – required that large bank depositors shoulder some of the burden for the bailout, infuriating the depositors but satisfying the region's financially stronger members, such as Germany. Many analysts view this "tax" on depositors as a pure confiscation of wealth and fear that a precedent has been set that allows European authorities to seize other forms of private property in future financial crises.

China had appeared to be on the brink of a sustained reacceleration in the fourth quarter of 2012, but this year's first quarter growth disappointed, with decidedly less robust growth. Overall, China's manufacturing and non-manufacturing services grew, but at a declining rate; retail sales also were less than forecast. At the same time, China's consumer price index rose more than expected, creating an environment of slowing expansion but rising prices.

Highlights and Perspectives

GDP

The Bureau of Economic Analysis released its third estimate of the fourth quarter 2012 real GDP, a seasonally adjusted annualized rate of 0.4%, down markedly from the 3.1% annualized growth of the prior quarter. This also represented an upward revision from the first two estimates of the quarter, the advance estimate of -0.1% and the second estimate of 0.1%. For 2012 overall, real GDP rose 2.2%, up from the 1.8% rate of 2011, but below the 2.4% rate posted in 2010. Growth was negatively impacted by the uncertainty over the "fiscal cliff" and ongoing budget negotiations, as the defense spending plunged 22% last quarter. Juxtaposed against the slowdown in the GDP growth rate during the quarter was a surge of 6.2% in real disposable personal income, driven by special dividends and distributions paid by companies in advance of expected tax rate increases. Corporate profits grew 2.3% during the fourth quarter, about the same as the prior quarter. Domestic profit growth was keyed by nonfinancial corporations. While the economy is generally holding up well with the fiscal headwinds, economists expect the full brunt of the sequestration to kick in this summer and to ultimately shave about 1.5 percentage points off of GDP this year. There are higher expectations for 2014 and 2015, however, as growth is expected to approach 4% once greater clarity is achieved on the fiscal front.

HOUSING

As in recent prior quarters, the housing segment continued to show signs of healing, and indeed, evidence of being a leading driver of economic growth. Existing-home sales for February (the latest monthly data available) advanced at an annualized rate of 4.98 million units, the fastest pace since the homebuyer tax credits of 2009. The inventory of existing homes is very tight, with 4.7 months of supply. Existing-home prices also continue to rise, with the median price up 11.6% from a year ago. In the new-home segment, the NAHB Housing Market Index, a measure of homebuilding activity, declined in each of the last two months of the first quarter, even though housing analysts had expected gains each month. Lack of demand was not a primary factor in the declines; rather, it was the rising costs of materials and labor, as well as lack of lot space for building. Looking ahead, the consensus among economists is that the housing market should continue to make modest gains. Drivers of demand are encouraging, with home affordability at attractive levels, job growth improving and solid price gains boosting homebuyer confidence.

EMPLOYMENT

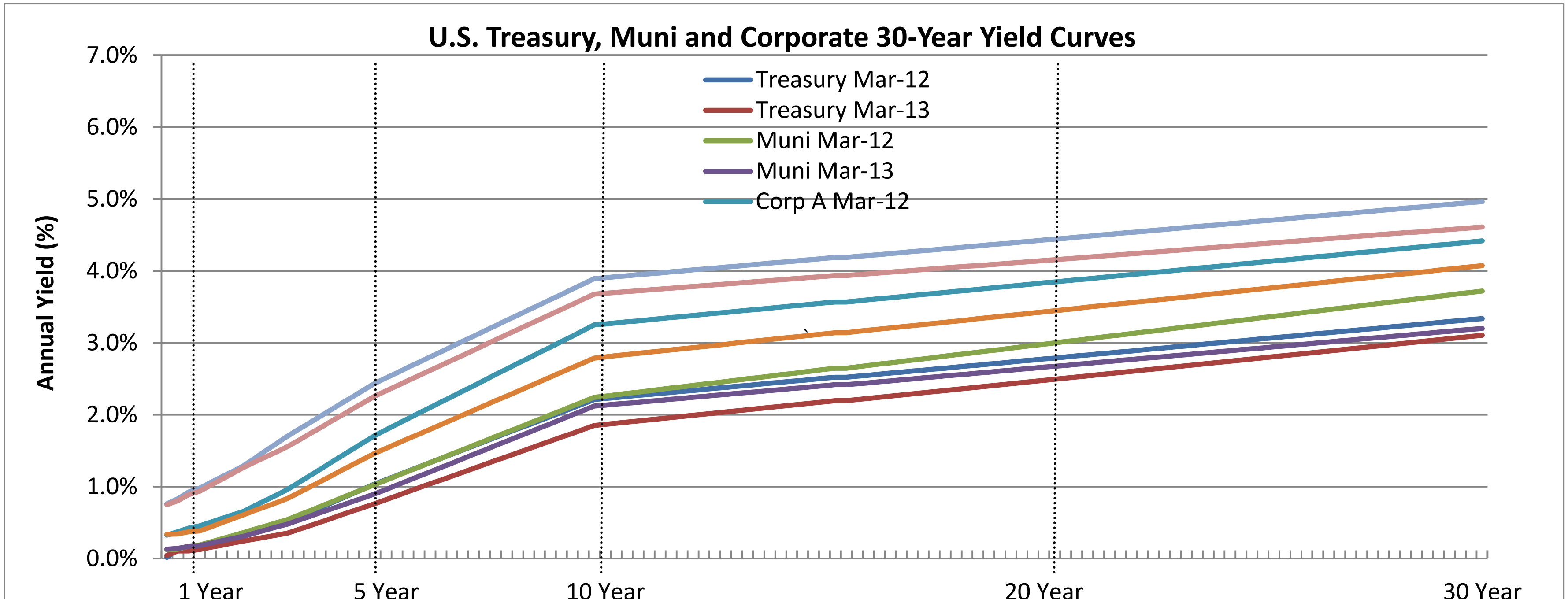
The employment situation continued to show marginal improvements in the first quarter and will remain of prime importance in the Fed's decision as to whether to scale back its securities purchases. The February payroll report, the latest available, showed a gain of 236,000 jobs, far above consensus expectations of a gain of 160,000. However, the gains posted for the prior two months were revised downward by a total of 15,000. The average number of jobs added for the three months ended February was 191,000, a very respectable amount given the uncertain fiscal outlook. The unemployment rate fell to 7.7% in February, a new post-recession low. The Fed has said one of the targets it is using to determine whether to begin raising rates is an unemployment rate of 6.5%. Despite February's strong results, many economists expect job growth to slow in the coming two quarters as the effects of the budget sequestration fully flow through the economy. It is possible that the unemployment rate could temporarily rise slightly before beginning a more sustained decline.

FED POLICY

After having made two significant moves at the end of the fourth quarter, the Federal Open Market Committee (FOMC) stood pat during the first quarter, maintaining existing policies. In December, the FOMC announced that it would begin targeting certain economic conditions – rather than a specific period of time – in determining interest rate policy. The FOMC stated that the current low interest rate policy would remain in place until unemployment drops to 6.5% and inflation between one and two years out stays below 2.5%. In addition, the FOMC also announced that it would increase the amount of securities purchased each month to $85 billion. At its most recent meeting, the FOMC acknowledged that the economy had improved but decided to keep its existing policies, including interest rate targets and bond buying programs, in place. In the statement released following the meeting, the FOMC noted that the economy had returned to "moderate growth," a slight improvement in the "paused" language used in the previous statement. The FOMC statement also mentioned that there remain certain risks to the economy, which presumably include the U.S. fiscal situation and eurozone debt crisis. There has also been a more spirited debate during FOMC meetings, with some members suggesting the possibility of a rise in rates sooner rather than later. However, most members believe that 2015 is the most appropriate time to begin raising the fed funds rate, and the expectation among the FOMC is that the fed funds rate will still be at about 1% by the end of 2015. The consensus among economists is that there will be relatively few changes to monetary policy for the foreseeable future. The unemployment rate is not expected to hit the 6.5% target for raising rates until sometime early in 2015. In the meantime, the FOMC will continue to fine-tune its bond buying programs and manage the market's expectations as to when rates may eventually begin to rise.

INTEREST RATES

In the first quarter of 2013, fixed-income securities experienced an environment marked by uncertainty over the U.S. fiscal situation, continued monetary policy aggressiveness, a rekindling of the issues in the eurozone and generally improving domestic economic results. Against this backdrop, yields remained very low but trended somewhat higher during the quarter. The yield on the benchmark 10-year U.S. Treasury rose to 1.85% as of March 28, 2013 from 1.76% on December 31, 2012. Yields meandered to an 11-month high of 2.06% on February's robust payroll data but settled back down at the end of the quarter as the situation in Cyprus unfolded. The yield on the 30-year U.S. Treasury also rose to 3.10% at the end of the first quarter from 2.95% at the end of the fourth quarter.



Source: Bloomberg

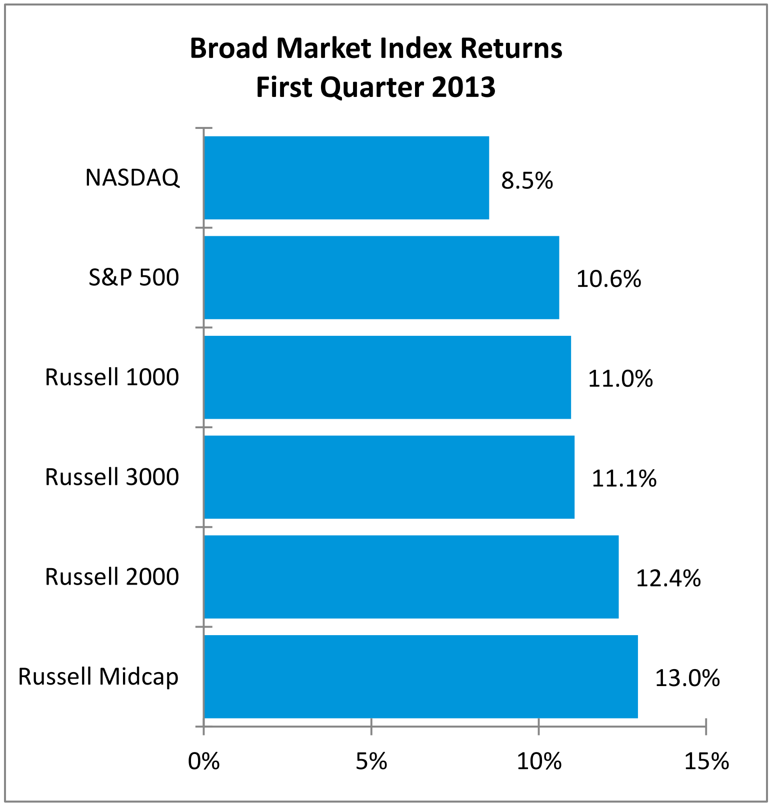
Economic and Market Overview

First Quarter 2013

It was the first time in two years that Treasury prices experienced a back-to-back quarterly decline, as investors sold Treasurys in favor of higher-yielding assets in a low interest rate environment. The consensus among economists is that the yield on the 10-year Treasury will close out 2013 at 2.25%, an increase that is likely to be driven by an improving employment situation. Factors that would continue to suppress yields include a continued flare-up of sovereign issues in the Eurozone, a slowdown in global economic growth, or volatility causing equity investors to become nervous and seek safe-haven assets.

With this environment as a backdrop, yields were generally higher, particularly further out on the yield curve. The yield on the 3-month T-bill rose to 0.07% at the end of the first quarter from 0.04% the previous quarter. The yield on the 5-year Treasury rose to 0.77% on March 28, 2013 from 0.72% on December 31, 2012, and the yield on the 10-year Treasury rose to 1.85% from 1.76% over the same period. Unlike the previous quarter, inflation expectations eased slightly, with the Fed's gauge of five-year forward inflation expectations declining to 2.72% on March 28, 2013 from 2.78% on December 31, 2012.

With the eurozone situation becoming less of a concern and a dovish Fed monetary policy, yields on credit securities fell during the quarter. The yield on the Barclays 1-3 Year Credit Index fell slightly to 0.96% from 0.97% during the quarter. Intermediate credit yields rose moderately, with the yield on the Barclays 7-10 Year Credit Index rising to 3.07% on March 28, 2012 from 2.93% on December 31, 2013. For the second quarter in a row, yields on high-yield securities fell significantly in the first quarter as the economy continued to improve, declining to 6.47% from 6.79% at the end of the fourth quarter. Municipal bond yields were generally little changed. The yield on the Barclays Municipal Bond Index rose slightly to 2.20% at the end of the quarter from 2.17% as of December 31, 2012.



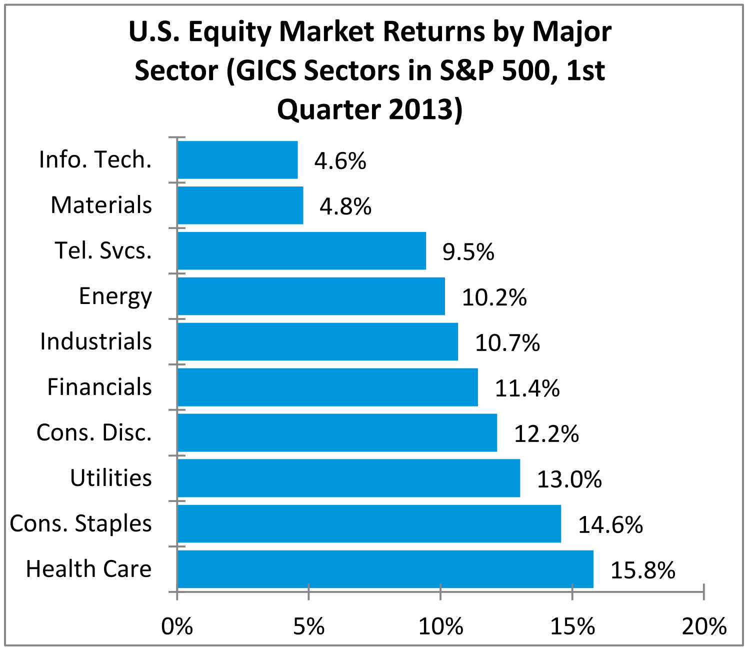
Source: Morningstar, Inc.

Economic and Market Overview

First Quarter 2013

EQUITIES

With the presidential election in the rearview mirror, stock prices began the quarter on a very strong note and continued to march ahead throughout the ensuing three months. In spite of the uncertainty surrounding the last-minute resolution to the fiscal cliff situation, the onset of the budget sequester and the re-emergence of problems in the eurozone, stocks climbed to record highs. Indeed, the market environment was marked by extremely low volatility, an indication that investors were comfortable with the outlook for stocks relative to bonds and that they believed a resolution would eventually be negotiated for the near-term fiscal issues confronting the U.S. The S&P 500 Stock Index, which reached a record high on the final day of the quarter, advanced in each of the quarter's three months, gaining +10.61% overall. Each of the ten underlying economic sectors also gained ground in each month, with the exception of materials, which had a slight negative return in February. This consistency across sectors underscores the breadth of the market's rise. The health care and consumer staples sectors led the way in the first quarter, posting +15.81% and +14.58% gains, respectively. Information technology and materials were the worst performing sectors on a relative basis, generating +4.59% and +4.79% returns, respectively.

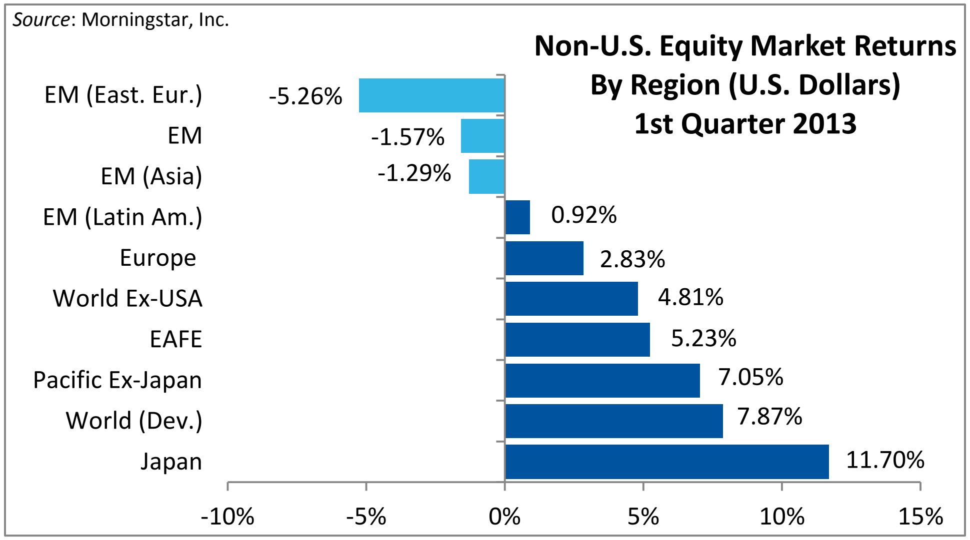


Source: Morningstar, Inc.

For the quarter, the Russell 1000 Index of large capitalization stocks posted a +10.96% total return. Within the large-cap segment, value stocks outperformed growth stocks by about 300 basis points. Small capitalization stocks, as represented by the Russell 2000 Index, also gained ground, ending with a total return of +12.39%. Growth stocks slightly outperformed value stocks within the small-cap segment. The Nasdaq Composite, dominated by information technology stocks, generated a return of +8.52% during the quarter.

Economic and Market Overview

First Quarter 2013



As the fiscal problems in the eurozone percolated once again, international stocks underperformed domestic U.S. equities during the quarter. The MSCI EAFE Index of developed markets stocks rose +5.23% during the three months ended March 28, 2012. International developed markets stocks have underperformed U.S. stocks by more than 250 basis points over the past 12 months. Emerging markets stocks lagged significantly during the quarter, with the MSCI Emerging Markets Index generating a return of -1.57%. The lackluster performance of emerging markets equities is due in part to the economic soft patch experienced by China. Chinese authorities placed constraints on homeownership during the quarter in an effort to curb the rise in property prices.

Outlook

In assessing the equity market's prospects looking ahead, it is helpful to reflect on the immediate past. The market has climbed the proverbial "wall of worry" over the past six months in its march to record highs. Investors essentially shrugged off the results of the presidential election, an outcome which brought with it higher tax rates; the standoff that resulted in the last-minute avoidance of the fiscal cliff; the debt ceiling suspense; the inability of Washington to avert the budget sequestration; and the financial flare-up in Cyprus. So, why has the market been so resolute in its advance, and could these conditions continue? Investors have seemingly begun to look beyond the various issues at hand to a future with greater clarity. This year's so-called "melt-up" has been driven by a bond market perceived to be overvalued, equity valuations that remain reasonable and a low-growth-but-stable economic environment. While the exceedingly low volatility makes the market more susceptible to a drop in the short-term, valuations are not excessive, and there is greater systemic stability in the global economy than there was even nine months ago. Perhaps most notably, the Fed remains intent on keeping short-term interest rates near zero percent, so that monetary policy acts as underlying support to the market. For these reasons, investors might continue to look at market drops as opportunities to rebalance portfolios toward equities.

DISCLOSURE

The information, analysis, and opinions expressed herein are for general and educational purposes only. Nothing contained in this quarterly review is intended to constitute legal, tax, accounting, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. All investments carry a certain risk, and there is no assurance that an investment will provide positive performance over any period of time. An investor may experience loss of principal. Investment decisions should always be made based on the investor's specific financial needs and objectives, goals, time horizon, and risk tolerance. The asset classes and/or investment strategies described may not be suitable for all investors and investors should consult with an investment advisor to determine the appropriate investment strategy. Past performance is not indicative of future results.

Information obtained from third party sources are believed to be reliable but not guaranteed. Endowment Wealth Management, Inc. makes no representation regarding the accuracy or completeness of information provided herein. All opinions and views constitute our judgments as of the date of writing and are subject to change at any time without notice.

Investments in smaller companies carry greater risk than is customarily associated with larger companies for various reasons such as volatility of earnings and prospects, higher failure rates, and limited markets, product lines or financial resources. Investing overseas involves special risks, including the volatility of currency exchange rates and, in some cases, limited geographic focus, political and economic instability, and relatively illiquid markets. Income (bond) securities are subject to interest rate risk, which is the risk that debt securities in a portfolio will decline in value because of increases in market interest rates. Investing in commodities can be volatile and can suffer from periods of prolonged decline in value and may not be suitable for all investors. Index Performance is presented for illustrative purposes only and does not represent the performance of any specific investment product or portfolio. An investment cannot be made directly into an index.

INDEX OVERVIEW

The S&P 500 Index is an unmanaged index comprised of 500 widely held securities considered to be representative of the stock market in general. The S&P/Case-Shiller Home Price Indices measure the residential housing market, tracking changes in the value of the residential real estate market in 20 metropolitan regions across the United States. The Morgan Stanley EAFE Index represents 21 developed markets outside of North America. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Barclays U.S. Aggregate Bond Index is a market capitalization-weighted index of investment-grade, fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year. The Barclays U.S. Corporate High Yield Index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. The index may include emerging market debt. The Barclays Municipal Bond Index is an unmanaged index comprised of investment-grade, fixed-rate municipal securities representative of the tax-exempt bond market in general. The Barclays 1-3 Year Credit Index includes publicly issued U.S. corporate and specified foreign debentures and secured notes that are rated investment-grade (BBB- or higher) by at least two of the major ratings agencies, have maturities between one and three years, and have at least $250 million par amount outstanding. The Barclays 7-10 Year Credit Index includes publicly issued U.S. corporate and specified foreign debentures and secured notes that are rated investment-grade (BBB- or higher) by at least two of the major ratings agencies, have maturities between seven and ten years, and have at least $250 million par amount outstanding. The DJ-UBS Commodity Index Total Return℠ measures the collateralized returns from a basket of 19 commodity futures contracts representing the energy, precious metals, industrial metals, grains, softs and livestock sectors. The Russell 1000 Index is a market capitalization-weighted benchmark index made up of the 1000 largest U.S. companies in the Russell 3000 Index (which comprises the 3000 largest U.S. companies). The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Consumer Price Index (CPI) measures the change in the cost of a fixed basket of products and services. The Gross Domestic Product (GDP) rate is a measurement of the output of goods and services produced by labor and property located in the United States.

ABOUT Endowment Wealth Management, Inc.

We are a Multi-Client Family Office whose ***sole mission*** is to provide wealth sustainability for individuals, families, retirement plans and institutions through the utilization of the ***Endowment Investment Philosophy***. We manage our client's financial wealth to enhance the human capital of their future generations. We work closely with our clients to develop an integrated long-term wealth plan that maximizes the benefit gained by integrating all of our individuals or families wealth producing assets. We are different from many other firms, in the way we build our portfolios on behalf of our clients.

For more information on Endowment Wealth Management, Inc., please visit ***www.EndowmentWM.com***.