6600 Perimeter Dr.
Suite 200
Dublin, Ohio 43016

614.791.HAWK

info@hawk100.com
www.hawk100.com

HAWK Letter

Dear Hawk100 Member,

A Taxing Strategy Ahead.

Hawk100 warmly extends its wishes to you and your family for health, home and happiness during 2013.

We begin our portfolio review this quarter with an update to our prior letter which discussed the "fiscal cliff" with particular focus on the potential tax ramifications for your portfolio.

Higher taxes. In our previous quarterly letter, we discussed various probable tax changes that were scheduled to coincide with the new calendar year when the Bush tax cuts expired. Indeed, on January 1, Congress enacted The Taxpayer Relief Act of 2012 to address tax-related portions of the fiscal cliff. Briefly, the law raises tax rates on higher incomes while preserving most rates on lower incomes.

Table 1 shows 2013 rates enacted through The Taxpayer Relief Act as well as the Affordable Care Act together with the rate changes from 2012.

The Taxpayer Relief Act averted the most damaging elements of the fiscal cliff. The rates are considered "permanent" insofar as Congress did not place a sunset provision in the Act. This mitigates the near constant political fighting that has dominated DC recently. The Act spares lower and middle class incomes of the direct cost of rate hikes. Although, they are hit by resumption of full payroll taxes since the 2% Social Security tax holiday expired. They may also get pinched by higher income taxpayers tightening their wallets. The Act averts risks that would have come if taxes on investment income and gains had risen to heights threatened. On balance, the Act does more good by the harm it avoids than it does bad by the pain it inflicts. For this, and for the sparse evidence that DC can work together, stocks have rallied.

Table 1—2013 Tax Rates with Changes from 2012

Bracket (000)	Ordinary Income Rate	Ordinary Income Change	Capital Gains Rate	Capital Gains Change	Dividends Rate	Dividends Change
0 – 18	10.0	---	0.0	---	0.0	---
18 – 72	15.0	---	0.0	---	0.0	---
72 – 146	25.0	---	15.0	---	15.0	---
146 – 223	28.0	---	15.0	---	15.0	---
223 – *250	33.0	---	15.0	---	15.0	---
250* – 398			**18.8**	**3.8**	**18.8**	**3.8**
398 – 450	35.0	---	**18.8**	**3.8**	**18.8**	**3.8**
450 – above	**39.6**	**4.6**	**23.8**	**8.8**	**23.8**	**8.8**

* Bracket table separated to facilitate comparison across various taxes assessed.
The foregoing bracket reflects those for married taxpayers who file jointly.

Hawk100 strategy.

As explained in our prior letter, Hawk100 recognized unusually large market risks identified around the fiscal cliff. We have sought to preserve and protect members' wealth given the substantial declines that could have occurred if taxes rose as they were indeed scheduled to do. Hawk100 took proactive steps during the fourth quarter to strategically protect member portfolios from economic harm, and we preserved the portion of portfolio gains if tax rates rose.

David Petrill, CPA, Director of Brady Ware's Columbus office tax practice leader, characterized the mood of markets during the fourth quarter when he advised Hawk100 that tax rates "would likely rise in 2013 and almost certainly would not fall."

Adding his advice to evidence already compiled through our own research, Hawk100 took up the effort to capture capital gains during 2012 for taxable accounts. Simultaneously, Hawk100 realigned assets held in tax-deferred traditional IRAs

By Richard Clemens, CFA CPA, *President*

Your wealth.
Your life.
Aligned.

and tax-free Roth IRAs to sell positions for which it estimated the assets' intrinsic values were most exposed to higher taxes.

Selection strategy. To reinvest member portfolios, Hawk100 prudently selected assets that meet members' investment objectives and selected strategies. Namely, for assets that provide income, Hawk100 seeks to purchase assets that maximize interest yielded to members relative to the price risk associated with rising interest rates (i.e., duration). For assets that promote members' portfolio value, Hawk100 seeks to purchase assets that maximize expected total return by managing the price it is willing to pay for expected shareholder cash flows and associated rate of growth.

Evaluating member portfolios. Hawk100 has succeeded in its pursuit of these objectives.

For that portion of member portfolios serving the purpose to provide income, the aggregate yield for members' portfolios was 2.6%. This was higher than the benchmark yield of 1.6%. The aggregate portfolio duration (approximate rate of price change if yields rose or fell by 1%) was 4.1. That duration was lower than the benchmark duration of 4.4. In aggregate, the ratio of yield to duration for member portfolios was above the benchmark ratio by 73%.

Likewise, for equity securities aligned with the purpose to promote portfolio value in member portfolios, the aggregate ratio of their price to expected cash flow was 6.0 and the expected growth rate was 8.7. Those ratios compare with the benchmark ratios 7.1 and 10.4, respectively. Comparing price-to-cash-flow with the growth rate for member portfolios gives a ratio of 0.7 which was equal to that ratio for the benchmark.

The relevant benchmark for the provide purpose is the Barclays Aggregate Bond Index and for the promote purpose is the S&P 500 Index. The source for benchmark data is Morningstar.

Trades executed.

Securities sold. Hawk100 executed transactions during the fourth quarter in pursuit of our strategy to capture gains and to reduce exposure to risks associated with higher taxes. In our letter to each member, we included a list of specific securities sold including metrics in line with our strategic selection and evaluation process. Please see Your Wealth Alignment Report for complete information for your portfolio and each security.

Securities purchased. Hawk100 executed transactions during the fourth quarter in pursuit of the stated strategy. In our letter to each member, we included a list of securities bought including metrics in line with our strategic selection and evaluation process. Your Wealth Alignment Report shows complete information for your portfolio and each security.

The overall portfolio turnover rate during the quarter was 30.2%. In other words, for every $100 invested in member portfolios, Hawk100 either bought or sold $30.20. That trading level was unusually high due to the unusual circumstances at year end. As we navigate through myriad challenges and opportunities in 2013, our pace of trading may continue to be elevated. However, we expect that it will slow from last quarter. Regardless of the level of our trading activity, please know that Hawk100 is committed to work toward its purpose to help you align your wealth with your life.

Looking ahead.

With a resolved tax debate and repositioned portfolios, we look ahead to the challenges and opportunities that may affect the alignment of members' wealth with life.

Evaluating stocks. Among factors used to tactically implement Your Wealth Alignment Plan, Hawk100 analyzes technical and fundamental conditions. This brief overview of technical conditions and our fundamental analysis provides insight into our equity market thinking.

Technical condition. Technical analysis is "the study of the action of the market itself" (Magee, 1992) and seeks to understand investor behavior in markets. We view technical analysis as a subordinate tool to fundamental analysis, yet it warrants looking at historic market cycles. To evaluate where stocks may be within the current market cycle, we present a **Table 2** showing thirteen significant market cycles since 1929.

Markets advance roughly three-times as long as they decline, and full market cycles last six and a half years, on average. Advancing markets have added five-times more than declining markets have subtracted, and the average markets rise is 70% over each significant cycle.

Comparing the current period with earlier cycles, the 1.3 year duration of this cycle's decline was a few months short of the average decline. The subsequent advance since early 2009 is about one year short of the average five-year time frame for previous advances. Purely from a cyclical standpoint, equities could reasonably advance for another year.

Comparing current returns with earlier cycles, the current cycle has included a much larger decline than average when stocks fell 51% between late 2007 until early 2009. To date, the subsequent 111% advance has been much smaller than average. The full cycle return of 3% is the smallest cumulative return of any cycle measured. By this measure, equities have much further room to continue their bullish advance.

Table 2—Significant market cycles since 1929

Peak	Trough	Peak	Years Decline	Years Advance	Years Cycle	Return Decline	Return Advance	Return Cycle
Average for previous cycles			**1.7**	**4.8**	**6.5**	**-33.8%**	**168.7%**	**70.2%**
Oct 2007	Feb 2009	Dec 2012	1.3	3.8	5.2	-51.0%	110.6%	3.2%
Mar 2000	Sep 2002	Oct 2007	2.5	5.1	7.6	-43.8%	108.4%	17.2%
Jan 1994	Nov 1994	Mar 2000	0.8	5.3	6.2	-3.4%	264.5%	252.0%
Aug 1987	Nov 1987	Jan 1994	0.3	6.2	6.4	-29.6%	155.9%	80.2%
Nov 1980	Jul 1982	Aug 1987	1.7	5.1	6.8	-16.5%	279.7%	216.9%
Dec 1972	Sep 1974	Nov 1980	1.8	6.2	7.9	-46.2%	194.2%	58.4%
Nov 1968	Jun 1970	Dec 1972	1.6	2.5	4.1	-32.9%	62.3%	8.9%
Jan 1966	Sep 1966	Nov 1968	0.7	2.2	2.8	-17.6%	41.5%	16.7%
Dec 1961	Jun 1962	Jan 1966	0.5	3.6	4.1	-23.5%	69.6%	29.8%
Jul 1956	Dec 1957	Dec 1961	1.4	4.0	5.4	-19.0%	78.9%	44.9%
May 1946	Feb 1948	Jul 1956	1.7	8.4	10.2	-27.4%	257.3%	159.5%
Feb 1937	Apr 1942	May 1946	5.2	4.1	9.3	-57.6%	150.4%	6.2%
Aug 1929	Jun 1932	Feb 1937	2.8	4.7	7.5	-88.7%	361.6%	-48.0%

Based on monthly returns for the Dow Jones Industrial Average and S&P 500 Index, respectively, for periods before and after 1950.

From a technical vantage, equities appear to offer a reasonable opportunity for positive returns during 2013. However, the nearly four-year bull market is entering a mature age.

Fundamental analysis. With greater emphasis, Hawk100 analyzes markets and securities from with a fundamental view of intrinsic value—an estimate of security worth.

Your wealth.
Your life.
Aligned.

Each Wealth Alignment Report presents fundamental metrics for member portfolios and for the market (S&P 500 Index).

For equities that promote portfolio value, **Table 3** shows relevant valuation metrics for the S&P 500 Index and compares current metrics with the same measures that existed near the previous two market peaks and troughs.

Chart 1 better visualizes those metrics as currently measured versus the peak average and the trough average.

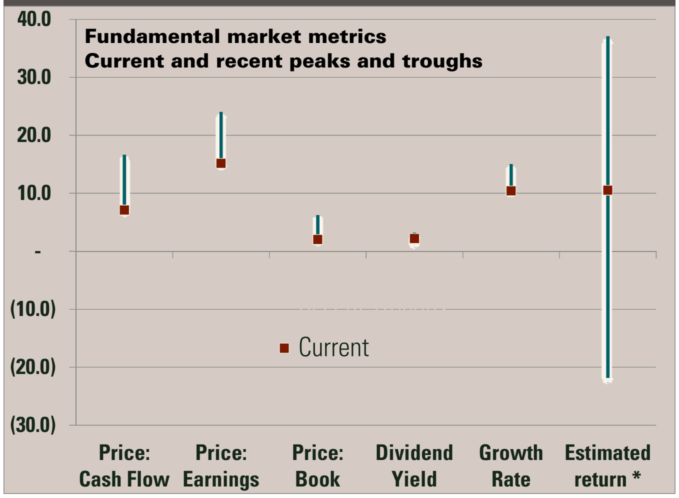
By most measures, current stock valuation multiples appear to be at bargain levels compared with recent market extremes.

Table 3—Market Fundamental Metrics
Standard & Poor's 500 Index

Current	December 2012	
Price: Cash Flow	7.1	
Price: Earnings	15.2	
Price: Book	2.0	
Dividend Yield	2.2	
Growth Rate	10.4	
Estimated return *	10.5	
Recent Peaks	**September 2007**	**March 2000**
Price: Cash Flow	16.7	16.6
Price: Earnings	16.8	31.3
Price: Book	4.8	7.7
Dividend Yield	1.8	1.3
Growth Rate	16.0	14.1
Ex Ante Annual Return	(22.0)	(21.7)
Recent Troughs	**March 2009**	**September 2002**
Price: Cash Flow	4.9	10.0
Price: Earnings	10.6	27.9
Price: Book	1.5	3.5
Dividend Yield	4.1	2.3
Growth Rate	9.9	12.6
Ex Ante Annual Return	49.8	24.4

* Based on fundamental analysis of S&P 500 Index. See *HawkLetter* Third Quarter 2012 and *HawkTalon* January 2013.

Chart 1—Fundamental Market Metrics



Although stocks have mostly risen for four years, corporate financial performance could be judged to warrant the advance.

During most of the bull market, Hawk100 has behaved with prudent caution while pursuing your investment objectives. We have been outspoken critics of regulatory, fiscal, and monetary policies globally. We hold our opinion that those policies amplify systemic risks implicit in investment markets. In light of those risks, we will continue to exercise prudence in pursuit of the alignment of your wealth with your life.

We welcome your questions and appreciate your membership.

Warmest regards,

Hawk100
Richard Clemens, CFA CPA
President

Your wealth.
Your life.
Aligned.