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Client Newsletter

Quarter Ending March 31, 2013

As I reported to you last week, effective April 14, 2013, I repurchased my firm from Nevada Trust/Meadows Corp, who bought the firm last year. I did this because it was the right thing to do for our clients. Jim and I are very happy to have the firm back. We will continue to run the firm in the manner to which you are accustomed. If you have any questions, please call us and we will be happy to answer them. We will soon be sending you documents to sign, because regulations require that we have new signatures on file.

During the first quarter of this year, the markets soared to new highs in. Even though economic growth was tepid, several things drove the market. First, the U.S. continues to be the best house on a bad block. With turmoil in Europe, slowing in Asia, and weak bond markets, U.S. equities were the best place to be. Emerging markets are showing strength but only the U.S. equity market is large enough to absorb the flow of funds. The Federal Reserve continued its program of quantitative easing which put some wind under market wings. Japan began a massive program to weaken its currency which unleashed a torrent of money into world markets which had to be invested. The U.S. housing market showed some signs of strength. These and other factors gave a lift to the market and overcame the negatives that otherwise would weigh the market down. Our clients who were fully invested were rewarded. Clients who had selected heavy bond weightings were not.

As often happens after such a strong rise, the market settles into a consolidation phase. Since the end of the quarter the market has alternated between an up week and a down week. We expect that see-saw action to continue until at least fall.

First quarter earnings reports showed an increase with about 75% of companies reporting earnings higher than expectations. Most reports were tepid. The easy money has been made by the companies as they have wrung productivity increases out of their firms. Payroll and other cost reductions have led to increased profits, but growth will be the key driver going forward, and growth will be hard to come by. Some sectors have shown more strength than others, i.e. healthcare (innovations), housing (recovery) consumer products, (surprisingly). Tech, notably last years' darling Apple, has suffered. P.C. sales are down as consumers shift to mobile devices. This kind of innovation and transition can be expected in the U.S. economy, which allows for creative destruction and innovation; unlike countries with command economies like cold war Russia and modern day China where the State owns the means of production and

companies are not allowed to compete or fail lest the state lose out. In the free market economies, sectors which mis-allocate resources (e.g. banks) get punished, and so do their investors. While the U.S. system is painful for those on the wrong side, in the long run the economy benefits and therefore the people.

We will continue to invest in growing companies in good sectors with a long term investment horizon. It has worked well in the past and we expect it to continue.

At Rutherford Investment Management, we experienced substantial growth last year, resulting in about a 40% increase in assets. We see that as a validation of our investment program. We hope you see it similarly. We always appreciate new assets from existing clients and referrals of new clients. Thank you for your past support.

William D. Rutherford

Rutherford Investment Management LLC.