KAM COMMENTS

KRUSE ASSET MANAGEMENT, LLC

EQUITY OUTLOOK

Last year about this time, KAM told our clients that the macro research that we had done suggested the S&P 500 would be up between 12 – 15%. During the mid-year, 10% pull-back that erased the year's gains, we reiterated this call. Final result: the S&P 500 was up 13.4%.

We don't pretend that we have all the answers or that we can predict the markets, but what we do suggest is that non-emotional, statistical research can help you make more right calls than wrong ones.

Statistically, the markets pull-back approximately one of every three years. In spite of the negative sentiment, in the past 10 years, the S&P 500 has had one negative year, 2008. Yes, it was a big one, down almost 40%, but yet the markets are still up over 60% (including dividends) during the past decade (2002 – 2012). — JSK

Volume 5, Issue 4

January 15th, 2013

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Did you know?

* The US has one of the highest annual barrels of oil consumed per capita and one of the lowest price per gallon at $3.44.
* Residential mortgage delinquency rates are still high at 10.8%.
* The Headline CPI had a 1.8% increase in 2012 as of November with the Core CPI having a 1.9% increase.

Data from JP Morgan Asset Management

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Each year, Registered Investment Advisory ("RIA") firms, like Kruse Asset Management, are required to update their ADV Parts I & II in order to register their company with the proper authorities (Either the SEC or their home state).

An RIA's ADV is a document that explains how their business is conducted and includes information on services, pricing, conflicts of interest and other business practices or material information.

KAM's ADV is always available on our website at www.kruseassetmanagement.com or upon request.

Additionally, KAM's code of ethics and privacy policy can also be found at our site under the tab "About Us."

Please let us know if you would like more information on these or any of our policies.

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Principles that Outperform!

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Make it a Great Year!

Q4, 2012 FIXED INCOME RECAP

2012 was a year that mirrored the previous two. As the year began, Interest rates were once again at or near all time lows. The feeling amongst the street is that the beginning of the end of the great fixed income bull market is upon us. This is because rates have no place to go but back up to their statistical mean. As per the past few years rates did back up slowly, however with the economy just stumbling along, the primary season beginning and the European debt crisis looming, there began talk of another Quantitative easing program from the Fed. Once the market place priced in all these outside events, rates came back down to new all time lows, led more by credit risk diminishing then interest rates risk. For example; High yield and The Emerging Market debt space out performed as investors went looking for yield. (Table1)[1]

	Yield		Return
	2012	2011	2012
10yr Treasury	1.78	1.89	4.13
Corporates	2.17	3.74	9.82
Muncipals	2.17	2.82	6.78
Emerging Debt	4.34	6.07	17.95
High Yield	6.13	8.36	15.81
TIPS	1.51	1.69	6.98

With the threat of higher taxes, improving revenue streams and many states addressing their budget issues the Muni area also realized above board returns as there spreads versus treasuries came in significantly. Once you calculate the after tax return, HNW investors began to demand more Municipals realizing the impact of higher rates. (Table 2) The important item to remember when investing is "It's not what you earn but rather what you keep after taxes".

[1]Data from JP Morgan Asset Management

	Current Yld	After Tax Yield	
		28% T.R.	36% T.R.
Municipals	2.17	3.01	3.39
10 yr Treas.	1.78		
Difference	0.39	1.23	1.61

(Yields will be higher if you own your resident state municipal bond)

What can we expect for the upcoming 2013? Three main topics come to mind: Firstly, with the fiscal cliff averted for the time being, tax rates will be higher for the High Net-Worth Individual. Municipal Bonds for this investor will become more attractive than before, leading to this sector outperforming early. Secondly, investors will continue to hunt for yield (recklessly at times) as one would anticipate continued high inflows to High Yield and Emerging Market debt funds. Lastly as investors begin again to worry about inflation and the dollar, look for TIPS and International and/or Sovereign debt to perform well as investors buy insurance against inflation, protection for the dollar and extra yield.

2013 is shaping up to be an exciting year for the financial arena. Be careful with your Fixed Income Portfolio; diversifying amongst the different classes and understanding how a back up in rates will affect you is important. A strong and resilient fixed income portfolio is important for investors to grow their **entire** portfolio. Understanding that if you are just looking for safety, such as U.S. Treasuries, you could end up with a negative return after inflation. Diversify instead to acquire safety.

— Matt Kraus