

Leigh Baldwin & Co.

Investment Brokerage

Savings and Innovation

If nothing else, America is the land of dreamers and of doers. The Europeans can take credit for the printing press but over the past 250 years we can proudly boast of creations and innovations from electricity to airplanes, from artificial hearts and the internet, to something called snap chat. That is what we do, we dream, we take calculated chances, and we innovate. If investment success is based on savings and innovation, that helps explain this year so far.

US Stocks have been the only choice in 2013 to date, witness the approximate 13% gain in the major indexes after the first 6 months. This compares to emerging markets (-14%), commodities (-9%), bonds (-3%), and international stock funds (+1%). Domestic US stocks are the obvious winners for the first half of 2013 and may do the same for the remainder of the year.

With respect to savings, US corporations continue to be historically profitable, and still have tremendous amounts of cash on their balance sheets. Interest rates remain low, even with the hiccups we have seen in June, so the cost of borrowing for corporations is still cheap. This hoard of cash (savings) is being used to not only buy back stock and increase dividends; it is also being used in research and development (innovation). As a side note, with unemployment still stubbornly high, the Fed is acting as a backstop to potential credit issues adding further confidence to corporate America. We believe that you should continue to be exposed to US equities, even with the most recent volatility.

What could wrong? Many things can and do go wrong with an economy, but our biggest fear is that the US has become a debtor nation. While we have seen that US corporations are in a great place with regards to savings, the US government is not. Research has shown that the national debt has increased to \$16.43 Trillion. Picture the growth of US spending this way, the government has spent during the first 6 months of 2013 the same amount that the government spent in all of 2001 (a record amount in 2001). While this does not represent a cause for a dramatic sell-off in the short term, it is definitely the elephant in the room for investors.

A well-diversified portfolio has significantly underperformed US stocks this year to date. We do not believe that this is the time to abandon a thoughtful, designed investment portfolio. Rather, we feel that a diversified selection of investments, that takes into consideration the macro-economic reality of potential higher interest rates and possible inflation, combined with the outstanding fundamentals of many stocks is the proper course. As one of the greatest business minds of all-time, Bill Gates remarked, "Never before in history has innovation offered promise of so much to so many in so short a time."

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