GALECKI FINANCIAL MANAGEMENT FINANCIAL SENSE

	LAST MONTH	LAST 3 MONTHS	1 Yr.
S & P 500 Index	3.75%	10.61%	13.95%
Russell Midcap Index	4.25%	12.96%	17.30%
Russell 2000 Index	4.62%	12.39%	16.30%
Dow Jones Industrial Average	3.86%	11.93%	13.37%
Morgan Stanley EAFE Index	0.89%	5.25%	11.81%
S & P Global REIT Index (ex US)	1.31%	7.42%	13.19%
DJ UBS Commodity Index	0.67%	-1.13%	-3.03%
Barclays Aggregate Bond Index	0.13%	0.15%	3.04%

INDEX RETURNS

The first quarter of 2013 saw domestic equities resume the rally and push toward all-time highs. The S&P 500 was up 10.61% in the quarter and is now up nearly 14% over the last twelve months. Mid-cap stocks as measured by the Russell Midcap Index were up 12.96% in the first quarter and have rallied more than 17% over the last year. Small-cap stocks were up 12.39% in the opening quarter for 2013 and are up more than 16% from a year ago.

International Developed stocks were positive in the first quarter, but lagged U.S. returns. The MSCI EAFE Index was up 5.25% in the quarter and is now up 11.81% over the last year. International Emerging stocks as measured by the MSCI Emerging Markets Index were down 1.79% in the first quarter and are only up 2.08% over the last twelve months. Real Estate continued its strong run with the S&P Global REIT Index increasing 5.25% in the first quarter. Commodities came under pressure and declined 1.13% in the first three months.

Bonds held their ground with the Barclays Aggregate Bond Index increasing 0.15% in the first quarter. The Barclays Global Aggregate Bond Index declined 2.09% in the first three months of the year.

ECONOMIC REVIEW AND OUTLOOK

The economy grew in the fourth quarter at an annualized rate of 0.4%. This was well below the 3.1% growth in the third quarter of last year but did represent positive economic output. Early estimates for growth in the first quarter of 2013 are in the 1.5% ï 3% range.

The Index of Leading Economic Indicators rose 0.5% in February following a 0.5% increase in January. The Index is up 2.3% over the last six months with eight of the ten components advancing. This suggests the economy should continue to expand in 2013. Industrial production rose 0.7% in February and is now up 2.5% over the last twelve months. The capacity utilization rate (measure of the amount of factory space in use) increased 0.4% in February to 79.6%, which is 1.4% below its 40 year average.

The labor market is improving. Non-farm payrolls increased by 236,000 in February. The unemployment rate dropped to 7.6%. Weekly initial unemployment claims are around 360,000, well below the key 400,000 level.

The ISM manufacturing index was at 51.3% in March. This was below the 54.2% reading in February. A reading above 50% suggests an expanding manufacturing sector. The ISM Non-Manufacturing index came in at 54.4% in March which was 1.6% lower than February.

Housing has continued to be a bright spot for the U.S. economy. Building permits (an indication of future construction) increased 0.8% in February to an annual rate of 917,000. This is 33% higher than a year ago. In addition, new home sales rose to an annual rate of 411,000 in February. This was below the January reading of 431,000, but remains 12.3% above the 366,000 from February of 2012. There is only a 4.7 month supply of homes for sale, which is well under the 6 month historical average.

Things are stabilizing from an international perspective. The JP Morgan Global Manufacturing PMI was at 51.2 in March, up slightly from 50.9. The Eurozone continues to be in recession with the Eurozone Composite PMI registering a 46.5 in February. Japan is rebounding with its Business Activity Index registering a 54.0 in March, above the 51.1 reading in February. China also appears to be improving with its Business Activity Index increasing to 53.5 in March from 51.4 in February.

EQUITY AND BOND MARKETS

Domestic equity mutual funds finally saw positive cash inflows in the first quarter of 2013 after years of outflows. This is an important change in investor confidence. It appears that the media is finally picking up on the fact that the S&P 500 is up 130% since March of 2009 and many indexes are approaching their all-time highs.

It is easy to be concerned that stocks have appreciated too quickly over the last 3-6 months. Most quarters do not produce double digit returns in equities and we should not annualize those numbers out for the remainder of the year. In fact it is important to remember that on average the S&P 500 has three 5% corrections every year and one 10% correction every year. It is very likely that we could see a short-term correction in equities.

However, we do not believe that the correction will be overly severe and it is entirely too difficult to time. Although prices are up, earnings have more than kept pace. The current forward P/E for the S&P 500 is under 14 while the 20-year average is around 16. This means that stocks are still relatively cheap from an earnings valuation perspective.

Most international markets appear to be improving. Japan has driven down the value of their currency in an effort to spur some inflationé near 2%. Because of this, the Nikkei 225 Index is up more than 40% since November. The European region continues to battle economic contraction, yet valuations have become very attractive. We believe most of the negative news is built into developed international markets, and this could be a good entry point.

Commodities have continued to struggle with sluggish global demand. It is likely that they will recover in the second half of this year. Global Real Estate has continued to perform incredibly well.

Bonds have traded sideways with the 10-year Treasury yield around 1.75%. We still believe there are better fixed income opportunities outside of the U.S.

We recommend that you review your overall equity and fixed income allocation to make sure it is appropriate for you given your risk tolerance and time horizon. Remember to keep a long-term focus and not worry about the short-term fluctuations.

PORTFOLIO MANAGEMENT

The year began with continued uncertainty as we digested the effects of the 2% payroll tax increase on the consumer, the European situation and the government debt ceiling debate. Many argued that the combination of many of these factors would derail the economy and subsequently hurt the market.

We continued to believe in our models that stocks were attractively priced and remained fully invested. Domestic equities lead the charge with small, mid and large caps all posting 10-12% returns. Global Real Estate continued its run posting a 7.1% return in the first quarter. International equities lagged with developed markets posting decent returns, but emerging equities were negative.

We added some direct exposure into the US energy space with a Vanguard energy ETF and the Salient MLP & Energy Infrastructure fund. These funds invest in equity securities directly related to the energy infrastructure in the U.S. The Salient fund invests roughly half of its money in Master Limited Partnerships (MLPs). This fund was recently up over 7% since our late February purchase.

Our bond strategy has continued to work quite well with the bond side of our portfolio increasing roughly half of one percent while the Barclay's Aggregate Bond index was up 0.15%. We recently added a Tactical Bond Category to the fixed income side of our portfolio. This money was taken from the Short-Term bond category which will have limited returns over the next few years. These new funds invest in broadly diversified U.S. and foreign fixed income. They may purchase currencies and also implement short positions. We believe this category will provide additional return on the bond side of our portfolio over the next few years as rates rise.

FINANCIAL PLANNING

The American Taxpayer Relief Act of 2012 (ATRA) extended the Qualified Charitable Distribution (QCD) provisions for 2012 and 2013. The February 1, 2013 deadline has passed for 2012 Qualified Charitable Distributions. However, taxpayers are still eligible to make a QCD in 2013.

A Qualified Charitable Distribution (QCD) is a tax-free distribution from an IRA that is paid directly from the IRA to a qualified charity. The IRA owner must be age 70 ½ or older and can use the QCD to satisfy their Required Minimum Distribution for the year. The IRA owner can exclude up to $100,000 of a QCD from their gross income.

Please note for Indiana residents, the full amount of the Qualified Charitable Distribution will be added back into adjusted gross income on the Indiana State tax return, thereby eliminating any savings on State taxes. (IC 6-3-1-3.5 (a) (35)

The Qualified Charitable Distribution most benefits individuals who:

- Do not itemize.
- Have AGI over $250,000 for single filers, $300,000 for joint filers. Itemized deductions begin to phase out

once AGI exceeds these limits. By reducing AGI on the Federal return, some individuals may no longer be subject to the phase out.

- Donate more than 50% of their AGI to charity. Itemized charitable deductions are limited to 50% of AGI.

The Qualified Charitable Distribution provisions were only extended through 2013. Please talk to your financial planner if you have any questions on how to make a Qualified Charitable Distribution.

Employee Spotlight

Chloe Inskeep

Chloe joined GFM in October of 2012. She works primarily as a Para-planner in the financial planning department. Chloe is currently working with Greg on a daily basis and is proving to be quite valuable in many different areas. Chloe graduated from the University of Indianapolis with a Bachelors of Science degree in Finance and a minor in Mathematics. She previously worked for a financial planning firm in Indianapolis. When she is not working, Chloe enjoys Notre Dame football, reading (especially Harry Potter books) and spending time with family and friends. We are very blessed to have Chloe on our team.

Patricia Reed

Patricia joined GFM in November of 2012. She works as a Client Service Specialist for asset management clients and financial planning clients. Patricia works closely with Ross Causley in our Service Department handling the many various service needs of our clients. She previously worked for Lincoln Financial Group for over six years prior to becoming a stay-at-home mother. Patricia enjoys spending time with her husband and two children. She also enjoys watching movies, reading and being with friends. We are so very happy to have Patricia on the team.

- Galecki Financial Management Investment Committee

Special Note: If you would like to receive a color copy of this newsletter, or schedule an appointment with a financial planner, please visit www.galecki.com/our-newsletter.