NORTHWEST CRITERION
ASSET MANAGEMENT, LLC

*914 Commons Way, Princeton, NJ 08540 . 609-924-4488 .Fax 609-924-1155 .www.nwcriterion.com*

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Dear Client,

The financial markets are off to a reasonable start this year, in spite of the political and fiscal headwinds we have faced and will continue to face for the next few months. While the S&P 500 is up 6.6 % (including dividends) through February 28th, it has spent the last five to six weeks moving sideways. The fixed income market, as represented by the UST 10-year notes, has also been relatively calm, in spite of spending a few weeks trading above a 2% yield. Our own strategies are off to reasonable starts, as well. Net of our fees, the Equity Select Portfolio is +7.9%, the Mutual Fund Mix is +3.2%, and the Dividend Portfolio is +5.0%. In the last few weeks we put cash to work for the Equity Select Portfolio by purchasing Apple (AAPL) and Raytheon (RTN), a defense contractor. The Dividend Portfolio put cash to work buying DuPont (DD), which we have owned in the past. We remain constructive on the equity markets and wary about the fixed income markets (as we have been for quite some time). Because of our concern about the level of rates, in the Mutual Fund Mix we will be reducing our holding of the Vanguard Wellesley Income Fund (VWINX). The Equity Select and Mutual Fund Mix are basically fully invested, and we are carrying a small amount of cash in the Dividend Portfolio.

We are actually very encouraged by the performance of the markets given the inability of the President and Congress to avoid the Sequester, and the renewed concerns about Europe on the heels of the Italian elections. These issues will not disappear anytime soon and will occasionally provide unsettling headlines, but as we noted in our last letter we believe it is appropriate and smarter to look beyond the political wrangling to longer-term investment opportunities. It appears the markets are endorsing that approach, realizing that corporations are producing solid earnings (which are the foundation of stock prices), while politicians pontificate and point fingers.

Continuing to provide a solid underpinning to the markets (both equity and fixed income) is the Federal Reserve and its Quantitative Easing policy. In recent testimony before Congress Chairman Bernanke reiterated his intention to keep rates low with a goal of reaching a 6.5% unemployment rate. With the unemployment rate hanging stubbornly close to 8%, the Fed thinks it unlikely the 6.5% rate will be reached before 2016. The Chairman also allayed some fears of the potential damage that the unwind of QE and the reduction in the size of the Fed's balance sheet could do by indicating the unwind could be accomplished more gradually through running off assets, rather than simply outright sales of all holdings.

There has been much discussion that the strong performance of the stock market is a result of a rotation out of bonds into stocks. Even though the stock indices are within striking distance of their October 2007 highs, mutual fund flows would not yet indicate this rotation is occurring. According to data from the Investment Company Institute, for the 25 months January 2011 through January 2013, there have been only two months (Jan 2011 and Aug 2011) in which the Total Bond category saw net sales, while the Total Equity category has seen only two months (Feb 2012 and Jan 2013) of net purchases. Even though the Jan 2013 net equity purchases were the largest of the period at nearly $38 billion, that month's net bond purchases were nearly $33 billion. To us this means that there is a massive amount of money still invested in fixed income at historically low rates having the potential to ultimately find its way into equities.

As mentioned last month, will be looking beyond (not ignoring) political issues and keeping accounts fairly fully invested. As always, thank you for letting us manage your portfolios and please contact us with any questions or comments.

Michael A. Camp
Principal

Joseph F. Hunt
Principal