GROWTH EQUITY REVIEW

Fourth Quarter 2013

HAPPY LAST YEAR

PERFORMANCE COMMENTARY

In a quarter where the broad market, as depicted by the S&P 500, was up over 10% and for the year up over 32%, we have experienced an outstanding annual increase in nominal worth during 2013. While we were expecting a good year because the fundamentals for a recovery have been in place for several years and the economy is healing, this was a vintage year by almost any reckoning. Our Growth strategy was up 12% for the quarter and 39% for the year. We began the year with fears of the fiscal cliff and ended the year with cautionary comments of a frothy, overvalued market. Physical factors prevailed over emotional and political factors that were recurrently roiling the atmosphere and airwaves by ominous contentiousness. Fundamental progress was often minimized or camouflaged by misguided, fake or specious commentaries. Despite headlines a healing economy was finally recognized by investors as industrials and technology were both up 13% in the quarter. Because of recent contentiousness it is difficult to remember the year 2013 with fondness; yet, its legacy does indeed improve the base for increased progress.

	Periods Ending December 31, 2013					
	QTD	**1 Yr**	**3 Yrs**	**5 Yrs**	**7 Yrs**	**10 Yrs**
Growth Equity Composite - NET	**11.5**	**37.8**	**15.0**	**20.0**	**8.9**	**9.1**
Russell 3000 Growth Index	10.3	34.2	16.5	20.6	8.3	8.0
S&P 500 Index	10.5	32.4	16.2	17.9	6.1	7.4

Composite performance is reported NET of fees and expenses. Please refer to the disclosures at the end of this report.
Performance figures for periods one year and longer are annualized.

PORTFOLIO COMMENTARY

In a quarter up 10%, **Google (GOOG)**, one of our larger positions, was up 28%. We had a fortunate entry point for our newest holding. We added **Faro Technologies (FARO)** to the portfolio in mid October and the stock was up 51% after we purchased it. **Unisys (UIS)** was up 33% and two of our larger holdings, **Boeing (BA)** and **General Electric (GE)** were both up 17%.

Internet equipment providers **JDS Uniphase (JDSU)** and **Cisco Systems (CSCO)** were the two leading laggards in the quarter, down 12% and 4%. Health care related companies were the other three holdings that dampened the quarter. **Vertex Pharmaceutical (VRTX)** was down 2%, **Hansen Medical (HNSN)** was down 3% and **Morphosys (MPSYF)** was flat for the quarter. We can live with a mildly disappointing quarter or two from both VRTX and MPSYF as they were up 75% and 94% for the year. The speed of adoption rate for their robotic catheter systems is the issue for HNSN. We expect sales to accelerate in the coming year.

PORTFOLIO ACTIVITY

We sold **Mako Surgical (MAKO)** after the company received a takeout bid from Stryker which gave us effectively a double on our investment. We replaced MAKO with Faro Technologies (FARO) and added to our positions in **Corning (GLW)** and **AT&T (T)**. FARO is an applied technologies company that develops and manufactures software-driven, portable, three-dimensional measurement equipment and software. FARO globally markets its product families to address 3D measurement and modeling, inspection, and quality control as well as reverse engineering needs. Their portable products and software can interface across most of the broad range of applied use. Already, FARO has a 15,000 customer list of users for one or more of their products.

We see their orientation to the customer in attitude and in staffing as a significant differentiator. The Company has positioned a relatively large professional cadre at the front end of the enterprise for marketing and customer service. Accordingly, their R&D laboratory becomes, in large measure, the customers' floor – critically advantageous! Such a robust front end is commonly conspicuous by its absence among young companies. Of 961 fulltime employees, 365 are sales and marketing professionals, 165 production staff, 117 R&D, 111 administration, and 203 customer service and application engineering service.

The case for purchasing shares of FARO must be made in the context of exceedingly rapid growth – worldwide – in the employment of 3D printing for the forming by computer-driven use of presently employed tools throughout virtually the full realm of the manufacturing of physical objects. This is new in the sense of (1) applications (though nascent use is reported to be twenty years old), (2) rapid spread of adoptions to tasks never before considered, (3) newly developed software and articulated scanning robotic equipment, and (4) sophisticated employment facilitated by digitization for imaging refinements and for coping with high tolerance limitations of dimensional scales.

3D printing is an exciting subject everywhere, pertaining to objects as large as the fuselage sections of Boeing's new Dreamliner to small toys, or replacement teeth. Ultimate growth of use, if such could be measured, could run into the trillions of dollars worth. Yet it is difficult to sort out who the largest winners will be in terms of shareholder interests. The technology is universal; it is the applications and experience and derived skills that are new.

Freedom of entry seems to be quite open. Large, well-established tool companies can enter late and still win. The recent-year entrants have shares highly valued on growth prospects that seem not to be discounted for possible later-year participants having power, products, and established client relationships. Thus, we prefer FARO over other options, whose devices and software can serve customers throughout the range of uses, including tool makers as well as final product customers. Certain providers of material (very specialized) will benefit also across the full scene; yet, the numbers of providers, and many of very large size, make it difficult to find outstanding investments among material providers.

While in its infancy as an industry, 3D printing is not a new or undiscovered investment opportunity. It has the potential to be a competitive industry with large established potential entrants, and most alternative opportunities are expensive especially considering the potential competition. For a small company, FARO has a strong balance sheet and positive cash flow and is multiples cheaper by all metrics than alternative options.

MARKET COMMENTARY

The market gains realized already probably reduce the extent of future gains; yet, this also makes future gains more probable. By-and-large (with a due amount of exceptions), market valuations do not excessively capitalize corporate records of well being as registered through recent years of revenue and earnings gains, nor are reasonable expectations (of slower rates of gain) overcapitalized for long established well-managed enterprises.

To be sure, there is froth in a few segments of the market but there is relative attractiveness of share prices for representative companies of the main body of major American enterprises. The amount of realized growth we have had in revenues could not have been possible in an economy so suspect and growing so slowly as national data and indices would have it. Yes, there is a big shortfall in interpretations and in the national count vis-à-vis reality.

How will the pattern change in 2014? Not much, for top line as in official counting; however, within the summation, a very great deal.

1. Interest rates will continue a normalization of which getting the ten-year Treasury rate up to 3% is a big first step. Normalization will be manifested in a widespread, international notching higher — important for the universality of the advance, more than for the extent. There should be no fear from expectations of a persisting bold uptrend that would be hyper competitive to shares.

2. America's balance (a.k.a. imbalance) of trade with the rest of the world would improve, giving support to the dollar, and in turn, encouraging inflows of investment capital, adding to the native American abundance of liquidity. Recent evidence of such is in hand.

3. Expect widespread price weakness in fuel costs, centered on liquid fossil fuels. The effectiveness of political pricing of past decades is over. The price of a barrel of crude ranged in the low teens of dollars before our first Gulf war in 1991. Much of that rise since (scaling beyond $120 per bbl) will disappear owing to new sourcing of natural gas, huge development prospects for oil under the salt seas, and in all directions (it seems) from the Caspian Sea, alternative sourcing of energy from sun and wind, and increased conservation in use. The folly of ethanol from food-grade starch (to run through internal combustion engines) will diminish or disappear. Ethanol produced from byproduct biomass or from waste can be sustained. The world is entering the other side of former political sponsorships, and of politically driven pricing. Such a prospective reduction in fuel costs would comprise a vast pervasive boost to spending for other things, in

comparative effectiveness beyond that of a great tax reduction. Except for the providers of oil, this would be a widely spread stimuli to persons and to industries (especially in lower-cost feed stocks for chemicals).

4. The automobile-producing industry that has so spectacularly improved designs and elevated production schedules cannot be expected to bring another such incremental boost to economies. If current output can be sustained throughout the new year, that would continue to help and match best expectations. Auto sales have large unfilled prospects in Asia, Latin America, Russia, and a few smaller nations.

All things considered, there seems to be (net) prospective swelling of supportive factors underway for equities, along with some major offsetting industry changes. As always, count on a multiplicity of wealth-creating new products emanating from creativity in the life and physical sciences. This source of national growth seems never to be fully appreciated as it unfailingly gains impetus. Expect another good year for those who respond to these major prospective changes.

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