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Third Quarter 2013

ARS WEALTH ADVISORS

Registered Investment Advisor

Index Returns

Second Quarter 2013

- S&P 500 2.9%
- Dow Jones Industrial 2.0%
- Russell 2000 3.1%
- EAFE (Int'l Index) -1.0%
- Barclays Cap Agg. Bond -2.3%
- S&P GSCI Commodity Ind -5.9%
- DJ US Real Estate Index -3.3%

"The difference between death and taxes is death doesn't get worse every time Congress meets."

-Will Rogers

"If you want total security, go to prison. There you're fed, clothed, given medical care and so on. The only thing lacking…is freedom."

-Dwight D. Eisenhower

Rollercoaster — Tony Anderson, President

In light of the recent, sudden rise in interest rates and subsequent increased market volatility, I want to use this quarter's newsletter as an opportunity to explain what happened during the second quarter, what portfolio changes ARS is implementing, and finally, what our outlook is for the balance of the year.

WHAT HAS BEEN HAPPENING IN THE MARKETS?

The second quarter in 2013 was filled with twists and turns, highs and lows. The rate on the Ten Year US Treasury Bond started 2013 at 1.86%, was virtually unchanged on March 31, 2013, at 1.87%, on May 1st fell to 1.66% and ended the quarter on June 30th, at 2.52%. All the excitement was a result of fixed income investors interpreting comments from Ben Bernanke signaling an end or at least a major change in the Federal Reserve's Quantitative Easing (QE) program. This rapid increase in rates negatively impacted the value of bonds and many high yielding equity investments. There is a debate as to whether or how much the Federal Reserve will alter its current program of purchasing approximately $80 billion of bonds per month. The Quantitative Easing program is an effort to reduce the unemployment rate by keeping interest rates low and accelerate the economy's growth (GDP). The jury is still out as to its effectiveness. The unemployment rate is currently 7.6%, not much better than the 7.8% rate in October 2012. GDP has been growing around 2% per year for the last three years, a rate that is too low to sustain significantly lower unemployment rates.

HOW DID VARIOUS MARKET SECTORS PERFORM?

Virtually no sector was spared the increased volatility that marked late May and June, although some areas of the market were hit worse than others. As a result of the rapid increase in interest rates bond prices fell, particularly medium and long duration bonds. Even short duration junk bonds fell in the second quarter. Municipal bonds were on track for their worst monthly loss since 2008 before stabilizing during the final week of June. Many above average yielding equities were caught up in the rotation out of "yield" investments. In the second quarter the S&P 500 was up 2.9% but the range of returns for subsectors was wide: financial stocks were up 6.8% while utilities were down 3.7%. Emerging Market stocks were among the hardest hit assets in May and June. The Chinese stock market was down 14% in June on concerns about slowing growth. Gold was hit especially hard, ending the second quarter at a 34-month low of $1,180.50 an ounce.

HOW WAS ARS POSITIONED?

We have generally over-weighted lower volatility and higher yielding stocks and although those shares did not perform well in the second quarter we believe they will outperform in the long run as they have in the past. In addition to the drag placed on portfolios by the bond allocation, short-term performance in some portfolios was hurt by exposure to higher yielding, defensive sectors, such as, consumer staples, utilities, preferred stocks and MLPs. While declines and volatility are never easy, we are willing to be temporarily out of step with the markets when we believe doing so will prevent permanent losses in client portfolios in the future.

WHERE ARE INTEREST RATES GOING?

In the near term we don't believe the Federal Reserve will dramatically alter its current path as it relates to QE: unemployment is too high and GDP growth is too low. One bright spot for the Fed - inflation remains fairly subdued. Another factor that gets little mention is low interest rates mean smaller government deficits because interest expense is a huge slice of the government spending pie. The average interest rate the US federal government pays for its debt is 2.4%. With over $16

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Our Mission Statement:

To focus solely on meeting the unique needs of our clients and to help them prepare for life's most important financial decisions, by providing objective advice, free from conflicts of interest, based on time-tested, proven strategies. To give our clients peace of mind by placing their best interest first and always acting in a fiduciary capacity.

If you would like additional information about the services offered by ARS Wealth Advisors, please contact us at (727) 322-7681.

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Rollercoaster. . . *(cont'd. from pg. 1)*

trillion of debt that works out to over $400 billion per year of interest expense. Every one percent increase in average interest rates means about $170 billion of additional cost (deficit) at the federal level. In a sense the Federal Reserve is trapped – for a variety of reasons it will have to keep rates as low as possible for a very long time.

WHAT STEPS ARE WE TAKING GOING FORWARD?

While we believe rates are more likely to moderate from here than spike further, we have made some changes to hedge our expectation. We are reducing our overall bond allocation and putting the proceeds into areas we believe will provide better diversification and growth opportunities going forward. We are also changing the make-up of our remaining bond exposure by adding investment vehicles that benefit from rising rates. These investments hold floating rate securities in the form of floating rate corporate bonds and adjustable rate mortgages, which offer yield potential and a cushion against rising rates. On the equity side, we continue to believe companies generating free cash flow and returning that cash to shareholders in the form of stock buybacks and increasing dividend payouts are the best places for stock investments. We continue to increase our use of ETF's to achieve that end as they offer broad diversification while allowing targeted strategies such as high dividend payers, sector concentrations and lower volatility.

While the second quarter was one to forget, most portfolios are on track to finish 2013 with returns above the markets historical average. Given the increased volatility in the markets, slow economic growth both here and abroad, pending unwinding of Fed policy (reduced stimulus) and continued geo-political risk, we will continue to maintain our conservative stance, while also cautiously and patiently seeking opportunities. We will make every effort to communicate the reasons and logic behind changes we are making to portfolios, but if you have specific questions about your portfolio or the market in general, please contact us and anyone on our team would be happy to discuss them. I hope you are enjoying your summer and have had the opportunity to travel and visit with family and friends. If there is anything we can do to improve the service you receive from ARS, please let me know.

Take care & God Bless.

Tony Anderson, President

New Investments under consideration:

Gabelli ABC Fund (GADVX): This no-load fund invests in arbitrage strategies: event driven situations such as announced mergers, spin-offs, split-ups, liquidations and reorganizations. Dividend yield is 2.7%.

Angel Oak Multi-Strategy Income Fund (ANGIX): This no-load mutual fund primarily holds seasoned floating rate non-Agency (not FHLMC, FNMA, GNMA, etc.) residential mortgage backed securities.

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