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Second Quarter 2012

ARS WEALTH ADVISORS

Registered Investment Advisor

Index Returns
First Quarter 2012

- S&P 500 12.6%
- Dow Jones Industrial 12.9%
- Russell 2000 12.4%
- EAFE (Int'l Index) 10.9%
- Barclays Cap Agg. Bond 0.3%
- DJ-UBS Commodity Index 0.2%
- DJ-Wilshire REIT Index 10.8%

"The urge to save humanity is always a false front for the urge to rule it." --American writer H. L. Mencken (1880-1956)

"Absolute power corrupts even when exercised for humane purposes. The benevolent despot who sees himself as a shepherd of the people still demands from others the submissiveness of sheep. The taint inherent in absolute power is not its inhumanity but its anti-humanity." --American author Eric Hoffer (1902-1983)

Taking It In Stride — Drew Swenson, Portfolio Manager

What a quarter for equity returns. Continuing the roller-coaster ride we experienced throughout 2011, the first quarter in 2012 did not disappoint riders who didn't want the excitement to stop. Broad equity market returns in general were up over 10% with some sectors far outperforming that. For example, financial stocks were up close to 20%. Considering in an average year (if there are still average years) equities return around 10%, we can't expect a lot more in 2012. So why do we still own equities? Should we take our chips off the table and wait? The reason we can't do that is we never exactly know what to wait for. Do we wait for the market to go down? If so, then how much does it need to go down before we get back in? These are the kind of things we think about most days.

We have decided to maintain our allocation to equities despite the recent run up in prices for a few basic reasons:

- We don't expect an imminent recession.
- In fits and starts the economy continues to improve.
- Stocks are by no means expensive on a historical basis and especially relative to the risk free rate of return (Treasury yields).
- Interest rates are at historically low levels.

While it is possible in the last three quarters of 2012 the market will give back the positive first quarter returns, it is also possible it will be up another 10%. In the long run returns will likely continue to average around 10% and so we have elected to stay the course because equities appear to be, in the worst case, reasonably priced.

Since we don't know what will happen in the near term we attempt to mitigate that risk by overweighting in stocks that are defensive. By this we mean we invest in companies that are structured operationally and financially to do well in good times and to weather the storm in bad times. For example Kimberly Clark is a stock

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The Advantage of Owning Stocks in the Current Environment — Kurt Ulrich, CFA

Low interest rates: The Federal Reserve sets monetary policy by regulating the supply of money in our financial system. During the financial crisis the Fed increased our money supply to help stimulate growth. This low interest rate environment has continued now for several years and the Fed has stated its intention of keeping short term interest rates low until 2014.

During the quarter intermediate to long-term rates headed up as a result of the improving economic backdrop, however, with the release of recent data, rates are again falling as they approach all-time lows. As of the writing of this letter the yield on the 10 year Treasury Note was about 2%. A buy and hold investor would only receive a 2% annual return for 10 years. This is less than the current rate of inflation. High oil prices combined with a slowing of growth in China have led some economists to forecast slower growth ahead perhaps explaining the recent fall in interest rates.

Election Year: This is an election year. While the Federal Reserve is "supposedly" free of political influence history suggests otherwise and markets tend do well in election years.

Dividend Yields versus Yields on Treasuries: With rates on Treasury securities at or near all-time lows, dividends on big blue-chip stocks appear quite attractive. In some cases dividend yield percentages are higher than the underlying yields for some corporation's bonds…a rare event. As an example Verizon has a dividend yield of 5.4% while its 6 year bonds are only yielding 5.1%. In addition, Verizon has increased its dividend every year for the past several years.

Growth of Dividends vs. Fixed rates for Bonds: Unlike bonds that pay a fixed return companies tend to grow their dividend payout as earnings grow. Thus, an investor with a portfolio of stocks with a current dividend yield of 3.5% should see his income go up over time helping offset the impact of inflation. Compared to a 10 year Treasury bond paying a fixed rate of 2% this portfolio certainly does offer some advantages.

Stocks of large blue-chip companies operating in stable industries continue to represent a risk/reward scenario that makes a lot of sense in this low interest environment. Entities such as General Mills, Kimberly Clark, Nestle's, Dupont, CVS, Eaton Corp, McDonalds, Pfizer, Verizon

111 2nd Avenue NE, Suite 1600
St. Petersburg, FL 33701

Phone: 727-322-7681 Toll Free: 888-322-7681
Fax: 727-345-3116

Anthony Anderson, MBA
President & CEO
tony.anderson@arswealth.com

G. Kurtis Ulrich, CFA
Chief Investment Officer
kurt.ulrich@arswealth.com

Andrew Swenson
Vice President & COO
drew.swenson@arswealth.com

James Serrano
Dir of Bus Development
james.serrano@arswealth.com

Nate Goad
Investment Associate
nate.goad@arswealth.com

Lois Conger
Operations Manager
lois.conger@arswealth.com

Felicia Fortosis
Operations Associate
felicia.fortosis@arswealth.com

F. Gordon Spoor, CPA,PFS
fgs@spoorcpa.com

Robert J. Riley
rjr@spoorcpa.com

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that is widely held in many of our clients' accounts.

Kimberly Clark is a company primarily engaged in manufacturing and marketing products made from natural and synthetic fibers. One-half of the sales are in North America and one-half in Europe, Asia and Latin America. You use their products every day; their brands include:

Kleenex, Scott, Cottonelle, Huggies, Pull-Ups, Depend and Kotex.

Kimberly Clark also has a healthcare division.

We believe consumers will buy tissues and toilet paper regardless of the prevailing economic conditions. As well, we don't foresee any technological innovations on the horizon that will obsolete diapers or toilet paper.

Kimberly Clark's management is shareholder friendly; it has increased the dividend every year for the last 25+ years, even through the recession of 2008. The dividend yield is now about 4%. In addition the company has bought back over $2.0 billion of Kimberly Clark common shares in the prior two years.

For these reasons we think this is a stock we can own for many years to come. We don't know what will happen to stock prices in the near term but we feel comfortable owning shares in an 85 year old company that is focused on creating shareholder value in a business that may never be technologically disrupted.

As always, if you have any questions, please feel free to call us.

Best regards,

Drew Swenson

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along with some of the energy transportation (mostly pipelines) companies offer better than average dividend yields that have grown over time.

Assuming the Federal Reserve sticks to its mantra of keeping short-term rates low, certain stocks should continue to do well relative to Treasury securities. Interest rates have trended down for the past 30 years. The probability of this trend continuing is extremely low. When interest rates rise bond prices fall. However, all Bonds are not created equal and many Corporate and Foreign bonds do offer attractive yields unlike Treasuries.

Having laid out some reasons for owning certain equities we do expect there to be above average volatility in these equity markets. By nature stocks tend to be more volatile than bonds, which supports the argument for owning both. Volatility can have an adverse impact on investor's psyche. Taking a longer term approach to investing rather than a day to day or month to month perspective is so important for maintaining rational behavior. The only way to avoid ups and downs in the markets is to remain on the sidelines in cash. Unfortunately, with rates so low this simply is not an option for most investors.

Have a wonderful Spring.

Kurt Ulrich, CFA

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