DMS

Discretionary **M**anagement **S**ervices, LLC

Second Quarter 2012 Outlook

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Every quarter, the portfolio managers at DMS produce our Economic and Strategic Market Outlook and translate our outlook into the tactical weightings in our client portfolios.

We have maintained a view that the U.S. economy is growing, albeit slowly. Annual GDP growth has slowed to our expectation of 2.0%. We believe that:

- Slowing GDP growth is a result of a slowdown in consumer spending from a faster 4th Q 2011 pace. Consumer confidence is trending lower.
- Recent relatively slow employment growth is consistent with modest growth of the economy: +68,000 in April, +77,000 in May and +80,000 in June.
- The Fed will remain accommodative and keep the Fed Funds rate near zero percent. Another round of quantitative easing will be contingent on economic growth further slowing.
- The European recession will negatively impact emerging countries' export growth.
- Emerging markets growth is slowing but will still lead developed markets.
- Election year focus on tax issues (i.e. "fiscal cliff", tax cut expiration, health care penalty) will continue to add uncertainty to markets.

Our outlook for the markets is that stocks will continue to be volatile as investors try to make sense of the rapidly changing global economy. We believe that:

- Corporate earnings estimates will be revised lower over the next few quarters.
- Stock volatility will increase as investors look to lock in profits.
- U.S. Treasury yields will stay low as investors buy as an investment safe haven.
- Larger cap and higher quality U.S. equities offer relative safety to other equity classes.
- U.S. dollar strength will negatively impact returns from international investments. We place an emphasis of Asian equity markets over Europe.
- Credit spreads had widened with the decline in Treasury yields but we expect relatively stable spreads.

We have positioned our client portfolios to best take advantage of current markets and our forward outlook.

- Equity exposure remains underweight in favor of lower volatility fixed income assets.
- Within equities, the focus is on lower beta stocks of large, high quality, dividend-paying companies.
- Within equities, the small cap holdings remain underweight.
- International stocks remain underweight due to concerns of European debt troubles.
- Among international equities, emerging markets stocks are relatively attractive as those countries tend to lead in global economic growth.
- Within fixed income, credit is looked upon more favorably as compared to Treasuries due to stabilizing of credit spreads. High yield is also viewed more favorably.

If you are interested in more information, please call Tom Woolwine, President, at (913) 981-1345 or email, twoolwine@dms-demarche.com.