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GLOBAL
INVESTORS

AN

INDEPENDENT INVESTMENT ADVISORY FIRM

FOR

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FRENCH BROAD
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A LETTER TO OUR CLIENTS

May 2012

Dear Clients,

The first quarter of 2012 was a robust one as stocks continued their rebound, the S&P 500 gaining by 12.0% while global markets were up 11.9%. As we stated in our year end letter we should not put a lot of emphasis on the short term, yet it is better to start a new year up rather than down.

At French Broad Global we have been sanguine about the medium term prospects of stocks for some time and are pleased that you have maintained your stock exposure, even during the volatile downturns like late last summer. Our thesis has been for a continuing economic recovery rebounding off the Great Recession with accompanying corporate profit growth. For the most part, this has played out, although lingering fear has made for a volatile ride.

What are the investment prospects going forward? We still believe that economic recovery will continue for 2012 in the United States as a continuum of economic recovery. The United States market is valued at 13.0 times expected corporate profits in 2012, versus a historical average of +16 times. With the economic momentum and modest valuation level, we remain hopeful in the medium term viability in holding stocks. There is some concern about slowing growth in corporate profits, but as long as profits are growing stocks should be able to maintain current valuation levels.

Having said this, there are many factors that could inhibit short term stock performance. Europe remains the most visible short term risk, as Europe faces recession due to its structural imbalance and sovereign debt problems. However, the actions taken to provide liquidity to the European Banking System by the European central bank, seems to have taken the "contagion" risk off the table.

In peripheral Europe (Greece, Portugal, Spain, Ireland, Italy) they can no longer afford generous entitlement and pension benefits along with expensive, rigid and overregulated labor markets. They have reached the end of their rope as they can't afford to fund the above by taking on more debt. In fact they probably need to reduce debt through a combination of austerity and debt relief. They will make some change to make themselves more competitive, but the question is will they go far enough to provide a platform for sustained growth. The economic slowing of the Chinese economy is another well published risk, but it seems that slowing versus implosion is the most likely scenario. A wild card possibility is war in the Middle East, which is very difficult to predict.

Regarding economic prospects for the United States, attention will have to be turned towards deficit reduction in 2013 and beyond. How this situation is addressed will be the single biggest determinant of potential economic growth over the remainder of the decade. The United States is somewhat different in that for the most part in the private sector we have efficient labor markets. Our opportunity and problem is that we can no longer afford our inefficient public sector. Reform has to take place as we cannot continue our fiscal deficits. Our choice is to reform taxes and entitlements, or to significantly increase taxes which would choke off our economic growth potential.

To summarize the investment perspective over the medium term (5 to 10 years) stock valuations are such to provide decent returns. For the shorter time frame the health of the economy will be the paramount factor. For the very near term, economic prospects remain positive. We will have to take another reading after the election in November. Please note, that in any one year, there is typically at least one ten percent plus correction.

We remain overweighed in the United States, although we incrementally added to our foreign positions in the first quarter due to their depressed valuations. However, with the muted European and Japanese economic outlook, the United States remains a more fertile field to find investment ideas. We continue to like emerging markets for the long term, but have preferred to own developed market companies that are expanding into emerging markets as a safer play, on emerging market growth. We have invested in companies like Adidas, Apple, BMW, Boeing, Coach, Covidien, Daimler, Diageo, Freeport McMoran Copper, Google, General Electric, IBM, LVMH, Pepsico, Starbucks, McDonalds, Samsung, Unilever, VF Corporation, among others. We have attached a list of "qualitative comments" on why we hold some of the stocks in your account.

Again, please feel free to call us with your investment needs or concerns. We know investing can be a tricky thing to do alone, and we are here to help.

Warm Regards,

Dan Jacobs CFA