July 31, 2013

Dear Friends & Family,

In the first six months of 2013, U.S. stocks staged their best first-half performance since 1999 with the major indices registering double-digit gains. Even with these gains, the markets experienced major disruption on May 22 when Federal Reserve Chairman Ben Bernanke noted that the central bank's stimulus programs would be tapered as the economy improved. Over the next several days, the benchmark yield on the 10-year Treasury jumped from 1.6 percent to 2.5 percent leading to fears that rising rates would adversely impact the market through higher borrowing costs. Bonds incurred losses as interest rates rose. Global equities ended mixed amidst growth concerns in the emerging markets and ongoing economic worries in Europe.

Below is a table highlighting performance for key asset classes through June 30, 2013.

Table 1: 2013 YTD Performance

	S&P 500	**Dow Jones Industrial Average**	**World Markets ex U.S.**	**Intermediate U.S. Bonds** (Barclays Aggregate US Bond Index)	**Long-Dated U.S. Bonds** (Vanguard Long-Term Bond Index)
Jan 1 to May 21	+18.0%	+18.6%	+9.9%	+0.1%	-0.8%
May 22 to June 30	-3.5%	-2.9%	-7.9%	-2.5%	-7.0%
First half of 2013	+13.8%	+15.2%	+1.2%	-2.4%	-7.8%

Source: Bloomberg

Gains in the U.S. equity markets can be attributed to a trifecta of burgeoning corporate profits, reasonable valuations, and accommodative Federal Reserve actions.

For the mid-year 2013 letter, we begin by examining how Federal Reserve policies have supported the economy. Despite talks of tapering, we believe the Fed is unlikely to aggressively move away from its accommodative stance in the near-term. In this environment, U.S. stocks continue to be relatively more attractive than fixed income alternatives. We are also increasingly finding opportunities in international markets as bad news and poor sentiment weighs on business valuations and create bargains.

BAGELS, DOUGHNUTS, ACCOMODATION, TAPERING, AND THE FED

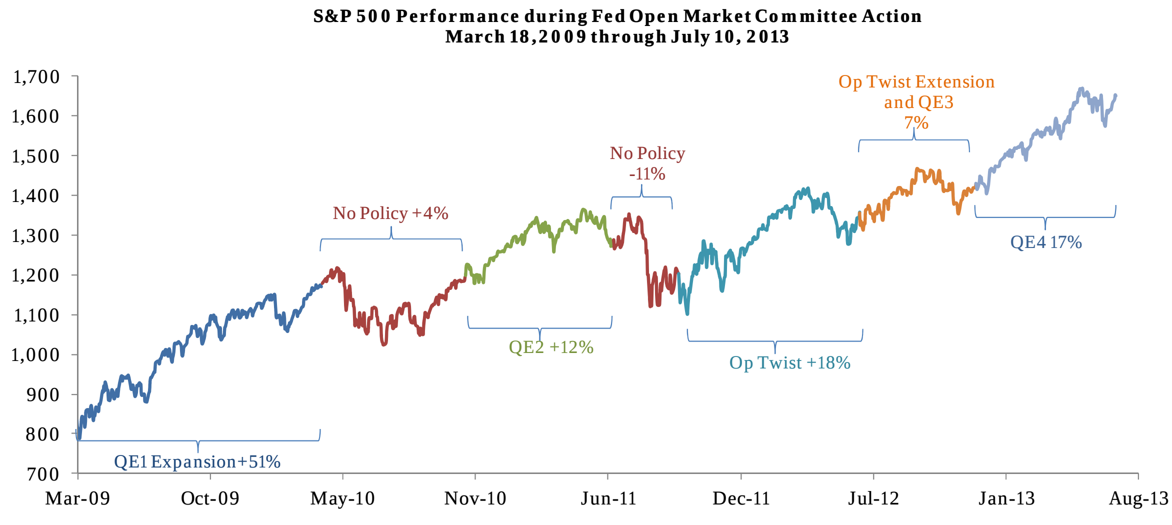
I served seven years as the chair of the Princeton economics department where I had responsibility for major policy decisions, such as whether to serve bagels or doughnuts at the department coffee hour. – Federal Reserve Chairman Ben Bernanke

Over the past five years, the Federal Reserve has aggressively pursued monetary measures to stimulate the economy. This policy has worked. Chairman Bernanke has not been shy about the Central Bank's intentions to boost asset prices and promote economic growth. In a 2010 Washington Post op-ed, he wrote:

> *Easier financial conditions will promote economic growth. For example, lower mortgage rates will make housing more affordable and allow more homeowners to refinance. Lower corporate bond rates will encourage investment. And higher stock prices will boost consumer wealth and help increase confidence, which can also spur spending. Increased spending will lead to higher incomes and profits that, in a virtuous circle, will further support economic expansion.*

Increases in the Federal Reserve balance sheet have directly impacted the equity market, as illustrated in Chart 2.

Chart 2

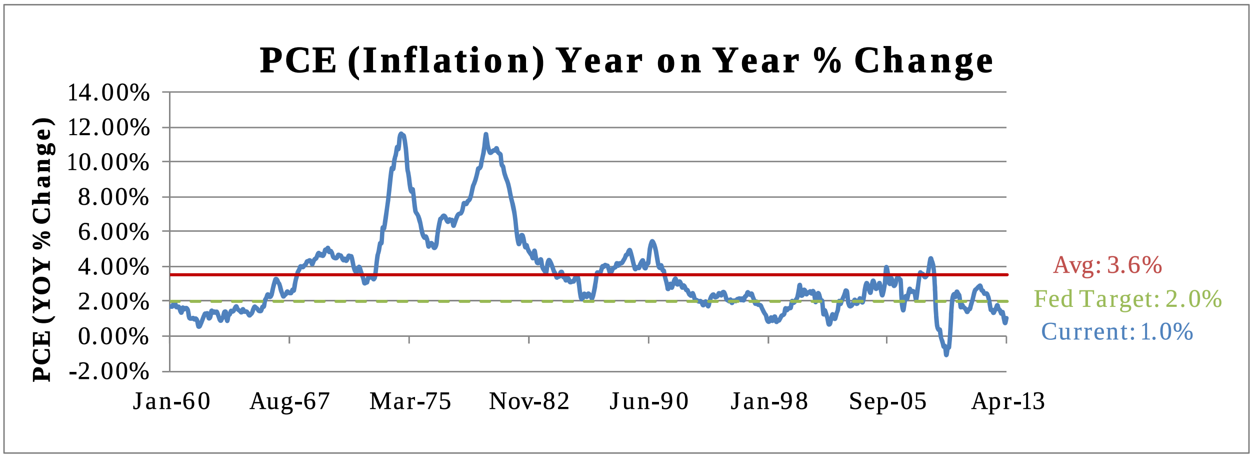


Source: Bloomberg

The numbers are staggering. The Fed's balance sheet has swelled to $3.5 trillion, over 20% of GDP and 600% larger than pre-crisis levels. For the time being, the Fed is continuing to purchase $85 billion of long-dated securities each month and has repeatedly said it will continue to spur employment and economic growth as long as inflation remains subdued.

In recent weeks, Chairman Bernanke and other Federal Reserve committee members have hinted at slowing down the rate of asset purchases. Your Advisor believes that central bankers will continue to be aggressive with stimulus measures, as inflation has remained at very modest levels. The Federal Reserve's primary inflation measure is the Personal Consumption Expenditure (PCE), which is a measure of goods and services consumed by individuals like housing, transportation, education, and medical care. Chart 3 shows core PCE since 1959, and it's noteworthy that recent readings have consistently been below Federal Reserve's long-term target of 2%.

Chart 3



Furthermore, we expect a gradual slowing of quantitative easing programs to have a muted impact on markets, as the government's federal deficit has fallen from $1.1 trillion in 2012 to an expected $0.6 trillion in 2013. A smaller shortfall requires less debt issuance by the government, and with a smaller supply of new bonds sold to the market, even a reduced pace of Fed purchases will continue to have a profound impact on markets.

Finally, not to be forgotten is the Federal Funds Rate (FFR), which has received little recent media attention but is the Fed's traditional policy tool for easing/tightening. The FFR range is currently 0 – ¼ percent, and Chairman Bernanke has maintained that this benchmark rate will not rise until there are clear signs of economic improvement.

AROUND THE WORLD IN SEARCH OF VALUE

I can't change the direction of the wind, but I can adjust my sails to always reach my destination. - Jimmy Dean

In the midst of the 2008-2009 financial crisis, valuations across the board for bonds, stocks, and real estate were extremely cheap as market sentiment was ruled by fear. Since then, an unusually high level of capital flows and central bank stimulus has driven fixed income yields to record lows, making bonds much less attractive than stocks or real estate.

After appreciating rapidly over the past 18 months, domestic equity and real estate are currently trading near the high end of the fair value, while bonds in aggregate remain overvalued.

Lately, our value-oriented investment process has led us to add to global holdings. International markets are relatively cheap given ongoing economic concerns. We understand that we are beginning to buy equities in markets where the news continues to be mediocre. Emerging markets are being downgraded by sell-side analysts amidst growth concerns, and Europe remains a basket case. In this instance, we are reminded that stocks are never cheap and popular at the same time.

One indicator we track is the Market Cap/GDP ratio. This simple metric is the one Warren Buffett has described as the best single measure of stock market valuation. It is calculated by dividing the stock market capitalization (the value of all the companies in a particular stock market) by the country's Gross Domestic Product (GDP or the market value of all officially recognized final goods and services produced within a country in a year).

Over the last fifteen years, this ratio has been highly volatile in the US, as investors have shifted between fear and greed. A lofty reading of 167 percent in 1999 was especially prescient, as most would agree that stocks were dramatically overvalued at the height of the technology bubble. Similarly, this ratio recorded a reading of 58 percent at the recent market low in March 2009.

Chart 4: Relative Valuations of Major Markets Using Market Cap/GDP Ratio

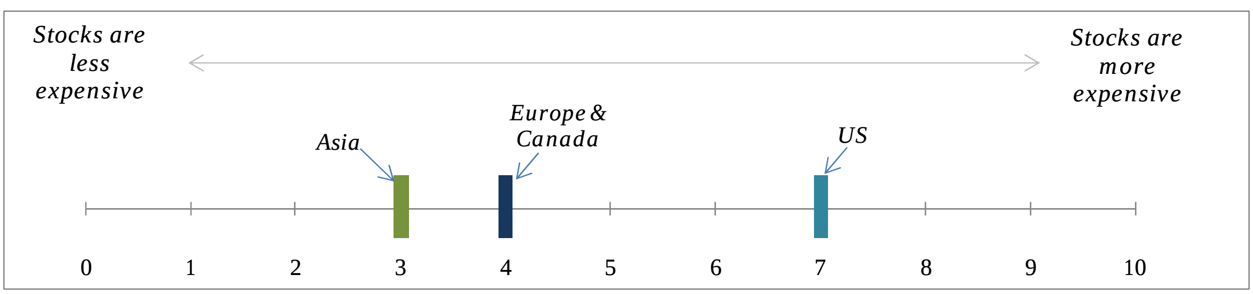


Chart 4 is a proprietary chart we created that utilizes historical and current Market Cap/GDP ratio figures. Applying this valuation measure globally, U.S. equities are trading at a slight premium to their historical mean. On the other hand, markets in Europe, Asia, and Canada all remain below long-term averages.

CONCLUSION

The only thing worse than being blind is having sight but no vision. - Helen Keller

During the spring, your Advisor spent considerable time refining our firm's mission statement, with the hope of further increasing our ability to delight and serve our clients. We share the result of our discussions below, and hope that you will take the time to tell us what you think.

Roundview Capital's mission is to provide our clients with peace of mind by serving as their family CFO.

- *We implement a value-driven, time-tested approach to investment management.*
- *We attend to our clients' life decisions with wisdom, diligence, and insight.*
- *We serve as a financial concierge, applying expertise across a wide range of areas.*

We are honored everyday by your trust, and truly pride ourselves on serving as family CFO. We are also very grateful for the referrals you have provided over the years.

In July, Roundview put together a team to participate in the annual Eden Autism 5k race. Eden Autism is a Princeton-based nonprofit dedicated to improving the lives of autistic individuals and their families. We serve many families who have children with special needs so this is a cause that is near and dear to our hearts. In addition to raising over $5,500, Roundview's team finished 2nd overall and we were anchored by team member Glen Bortolus who was the 1st place finisher! You can check out scenes from the action here: http://goo.gl/ci7TkU

Enjoy the rest of the summer. We look forward to speaking with you soon, especially if you have any updates to share with respect to your financial life. A copy of our firm's ADV is available upon request.

Very truly yours,

Howard Alter

Stephen Shueh

Andrew Lieu

George Andresen

Janet Chen

Janice Puccio