Main Street
MANAGEMENT COMPANY

Registered Investment Adviser
Investment Counsel

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Client Letter

This letter has been adapted for public use from a letter originally sent to our clients with their recent investment review. We mail copies to our friends and interested individuals with the intent to share some of our more interesting views and research. It should not be assumed that these opinions are any guarantee to predict future performance of any economies or marketplace.

WILLIAM E. HAYEK
PRESIDENT

Thursday, April 18, 2013

We are enclosing your Investment Review for the first quarter of 2013. Every time I have started to write this letter another world event seems to strike. This is why we create various projected scenarios from the more optimistic to sub-par economic performance. This letter is meant to give a review of the quarter and briefly summarize our current investment views. A more in-depth analysis and commentary will be included in our newsletter, *Strategic Perspectives* due next month.

Like moths to a flame, investors are relentlessly drawn toward "risk" by some innate reflex. But risk is not free, and it can be misjudged, and therefore in economic terms, mispriced. History is rife with examples of investment trends that reverse unexpectedly, and periods of excess investor enthusiasm that are often followed by difficult market environments. All too often these periods lead to unnecessary wealth destruction. Is history to be repeated, again? The odds are rising that it will.

Though global economies and financial markets have become increasingly intertwined, there was little evidence of that in first quarter performance. Fueled by continued Federal Reserve intervention and positive signs on the economy, including housing and corporate profitability, U.S. stocks posted their best first quarter since 1998, with the S&P 500 Index gaining 10.6%. Most of this has been wiped out over a few days in the beginning of the second quarter. Developed foreign stocks were held back by Europe and only posted a 3.8% gain for the quarter. Emerging markets lost 3.5% amidst signs of economic slowing in key countries like India, Brazil, and China. An increasingly stronger U.S. dollar also contributed to the weaker results from foreign stocks. Meanwhile, the broad bond-market Barclays Aggregate Bond Index was nearly flat.

Our portfolios are positioned to take into account outcomes we think are more likely over the next five years. But over the first three months, our positioning dragged on performance. It is interesting to note that many of these same allocations, such as emerging markets equity and debt, added value in 2012. Toward the end of the quarter we began rebalancing our tactical positions. These positions have held us in positive territory over the recent events of April.

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