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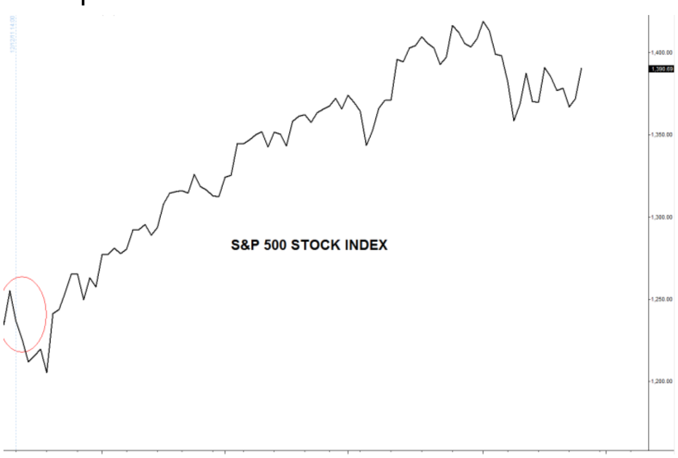
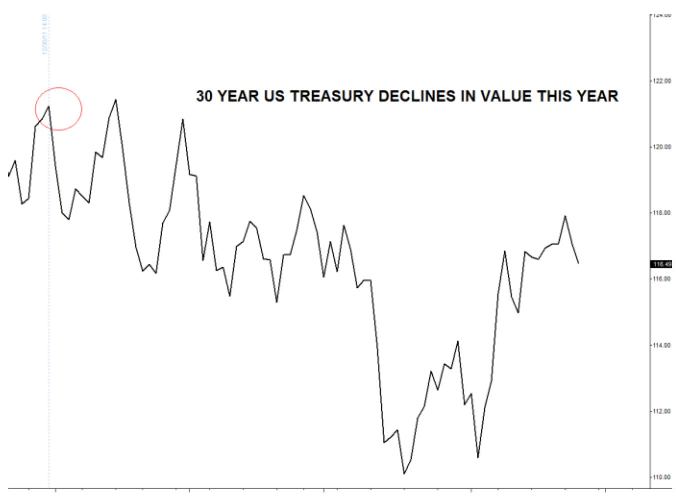
April 2012

Cautious After a Good Quarter

We are pleased that all PVG portfolio strategies benefited from strong first quarter market performance. After such a strong quarter, we have become more conservative or protective of client portfolios.



PVG's January Investment Commentary discussed the relative attractiveness of US stocks over foreign stocks, and U.S. Treasuries. We continue to have the same opinion of the investment environment, notwithstanding our current caution.



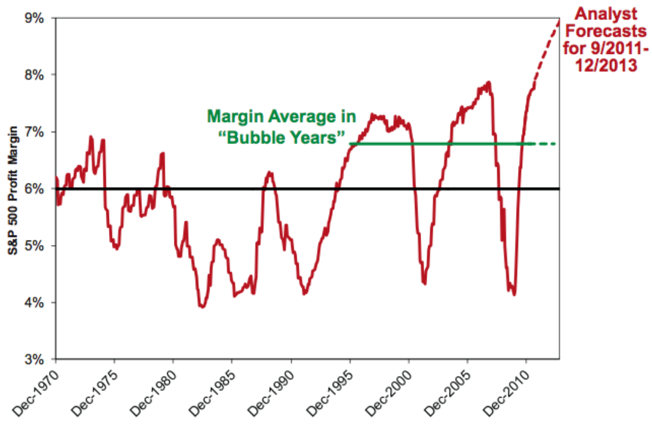
Four months ago we said: *"We anticipate stronger markets for U.S. stocks and higher yielding corporate equity, bonds and income funds this year. The economy continues its slow expansion. Stock values are attractive, particularly relative to low yields on treasury bonds. And, investor confidence has recently* *been at extreme low levels, similar to those last seen at the 2008-2009 bottom."* We further commented that *"we also anticipate less attractive prospects for US Treasuries and gold into which "panicking" investors' poured money last year, …….We don't expect a renewal of the strong bull market in commodities as longer-term supply and demand is moving into balance. European, Asian, and Latin American markets appear less expensive than those in the U.S., but they face continuing and more immediate economic problems while the U.S. is expanding. Our caveats are macro in nature as they were last year. These include the possibility of greater than expected financial disorder in Europe, a more severe economic slowdown in China as they seek to moderate growth, Iranian issues, and of course, American political dysfunction. The optimistic view with regard to these macro-issues is there is little that has not already been anticipated by the markets…"* Visit the Manager Commentary section of our web site www.pvgassetmanagement.com to review the full report.

As seen from the charts on the previous page, U.S. stocks rose during the first quarter and U.S. Treasury prices fell (interest rates rose). Commodities, including gold, began falling in late February. Since March, however, stocks have given back some of their first quarter gains, while U.S. Treasury prices are again rising, also shown on the charts above.

Fresh economic data shows rising layoffs, weaker home and other consumer sales, and somewhat slowing manufacturing activity. The economies of both Europe and China have slowed with the unknown length and depth of their problems. Investors may also now be focusing on the expiration of the Bush-era tax cuts and payroll tax reductions, along with mandated "sequestration" cuts to Federal discretionary spending in 2013. GDP could potentially drop by as much as 3 percent if Congress does not act to modify last year's budget deal. We expect they will, but then - this is an election year.

Slower global economic growth and slowing sales could negatively impact on corporate profit margins. Earnings growth, important to recent stock gains, could slow even faster as a result. Many companies have successfully navigated recent difficult economic times, strengthening their balance sheets and profit margins, largely by cost cutting. This method of generating corporate efficiency gains, however, can only go on for so long before items like wage inflation, begin to bite into margins. Currently margins are at cyclically high levels and 2013 earnings growth estimates seem to depend on even higher margins as the chart on the following page illustrates. We do think corporate earnings growth will slow as we approach 2013.

S&P 500 Return on Sales
Something's up...



Projections regarding future targets or expectations are only current as of the date indicated. Statements concerning financial market trends are based on current market conditions, which will fluctuate. There is no assurance that such targets will be achieved, and may be significantly different than those shown here.

Source: S&P, Compustat   As of 8/31/11

This data and uncertainty is sparking fears that the economic recovery and the markets are headed for a springtime stall - for the third year in a row. Observers have been quick to compare stocks this April with the same periods of 2010 and 2011 when the market began substantial declines of around 20%. We doubt stocks will exactly repeat the last two years, but we are being cautious given our primary objective of protecting your portfolio asset values.

Fortunately, the positive valuation factors we discussed in January have not changed much. These include relatively low price earnings ratios, high corporate earnings yields relative to bonds, and continued negative psychology on the part of investors. All continue to favor stocks over bonds, as does the record level of liquidity which the Federal Reserve Bank has injected into the economy, and to which they may add if the economy slows significantly.

Consideration of global economic and market health factors and risks is important because these factors drive prices for the vast majority of stocks. This has been particularly true during recent years. Issues like the housing/financial and sovereign debt crises have dominated the markets. Their negative impact on the global economy and markets will be with us for perhaps decades. However, known issues like these eventually become reflected in current market prices by wary investors.

As they do, consideration should also be given to new economic and industry developments that might have a more positive impact on the markets. Lately, for instance, there has been a great deal of talk about the potential for US energy independence as we develop huge and relatively inexpensive domestic shale oil and natural gas deposits. The positive impact of this development goes far beyond transportation, heating, and energy costs for American industry and consumers. Our chemical industry, for example, is becoming increasingly competitive as it uses natural gas as a production feedstock. The application of technology may also be leading to a renaissance for U.S. manufacturing. As industries have digitized and become more automated they have become more globally competitive. For example, we currently have approximately the same industrial output as China, but do so with only 10% the number of employees. Increasingly, companies are finding it attractive to build new plants in the US for these reasons, and perhaps because issues like rising foreign wages, high transport costs, logistics problems, and intellectual property rights have become concerns. Even the health care and education industries, where prices have grown far faster than average, are beginning to feel the impact of technology that may eventually bring costs under control. These are positive developments and present investment opportunities, particularly growth investors.

“Deleveraging” or the reduction of national and consumer debt is far from over. The world’s economies are weak, slower growing, and subject to negative shocks, the consequence of over-spending for decades. As always, investing remains risky, but perhaps offers the potential for greater reward because of elevated risk, particularly when portfolio management employs asset protection measures. We thank you for your confidence in PVG’s Loss Averse approach to investment management.

House-keeping: *Our updated Security and Exchange Commission ADV Part II filing is available to clients upon request along with our privacy policy statement. Let us know if you would like these documents, preferably by email at pvg@pvgassetmanagement.com. Thanks.*

Regards,

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