

2010 . . . 2011 . . . ?

Last quarter we wrote about the resilience of the markets in the wake of a tumultuous year. Our analysis pointed to globalization, and government intervention, as two of the primary forces that kept the markets humming along. In this letter, we will briefly examine these same two influences as they relate to 2011.

Before we continue, however, we want to reiterate that we remain positive regarding strong companies with excellent balance sheets, that are market leaders; and we particularly like companies that operate internationally, as well as in the U.S. Unless a worldwide, double-dip recession is in the cards (and we are not inclined to believe it is), such companies should continue to prosper in any environment; even an uncertain one such as we might see in 2011. Moreover, in the current environment of historically low bond yields we believe the U.S. equity market to be a particularly attractive investment option.

The news this year is no less troubling than last - but we suppose that could be said every year. Continued unrest overseas, with popular uprisings, military interventions and even the overthrow of governments undoubtedly makes markets nervous. Even the slightest news is examined, re-examined and (usually) overblown.

The earthquake and tsunami in Japan were originally viewed as nationally contained disasters, as damage to the coasts of other nations in the Pacific was much less than expected. Then the natural progression of consequences for those events (i.e. supply chain disruptions, power outages, etc.) was exacerbated by the unexpected consequence of nuclear plant problems. On top of all of that came two more major earthquakes.

Here at home, the government narrowly averted a shutdown as Democrat and Republican leaders working on the continuing budget were each assailed by the more strident members of their respective parties. An agreement was reached, but the bi-partisan process may not be the same for the balance of the year.

So, if globalization and government intervention mitigated the dour news of 2010, what are the chances that these two forces will continue to positively affect the markets during 2011?

First, the upheaval in Japan points out one of the perils of globalization, namely "interdependence". Without a fully functioning Japanese economy many of the technologies and parts that are used around the world are in short supply, or are cut off. An example is the Toyota plants in North America shutting down for a period of time due to a lack of parts that are typically sourced from Japanese plants.

Second, the government intervention that was so prevalent, and useful, in stabilizing the markets during 2010 might not be possible with a house divided in Washington D.C., and with the election cycle ramping up during the year.

So, although we continue to invest in strong, market leading companies we do recognize that the markets in which they operate may have a more volatile time of it than they did last year owing to the diminished "buffering" of globalization and government intervention.

In the midst of the “world chaos” we are very pleased to announce that Paragon Capital Management was selected as a candidate for the “Mr. K Award” presented by the Kansas City Chamber of Commerce. This marks the second consecutive year for which Paragon was chosen as a candidate for this prestigious award.

Also, in January 2011, Paragon Capital Management was recognized by KC Business Magazine as having some of Kansas City’s Best Wealth Managers for 2011. This is a recognition we have enjoyed for many years, and will continue to strive to earn it for many years to come.

Thank you for choosing Paragon as your investment management partner. As always, we are actively seeking new clients, so feel free to pass our names on to anyone who you feel might benefit from our services.

Regards,

Howard, Ward, Elizabeth, Ethel & Craig

Per SEC requirements, this quarter we will be sending you a copy of our SEC Form ADV Part II. This document describes who we are, what we do, and how we do it. Also, our Proxy voting policy is available to you at any time. If you would like to receive a copy of the policy, or inquire as to how your shares have been voted, please contact Kelly at the phone number, or e-mail, listed below.

As a Registered Investment Advisor, Paragon Capital Management receives and collects non-public personal information from various activities and statements.

Paragon does not disclose such information unless instructed to do so by the client.

We maintain physical, electronic and procedural safeguards that comply with federal regulations to guard your non-public personal information.

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