

January 2012

Looking Back to Look Ahead

Before we look ahead, let's look back. Fifteen months ago, in October of 2010, this newsletter took to task "investors" who desperately look for patterns to help discern where the market is going next. We cited the fact that since 1950, the stock market has gained an average of 23% during the third year of a presidential term. We noted that the pattern was interesting, but in no way predictive.

Sam Stovall, Equity Strategist for Standard and Poor's, was not so skeptical. He used the pattern to guess that the market would be up 17% during 2011. It was not. The S&P 500 index gained 2.11% for the year, exactly what the stocks in the index paid in dividends.

We do not bring this up to bash Wall Street equity strategists, but to simply point out how foolhardy it is to try and make predictions about the market. Even with extensive education and experience, a highly-paid research staff, and irrefutable historical data it is impossible to guess where the market will be a year, a month or a week from now.

That is why we constantly reiterate our philosophy of fundamental, research-driven management of your stock and bond portfolios. It is more accurate, and much easier, to predict which companies will be profitable over time than it is to guess how the market will value those companies over the next month. We do believe that over time the value of profitable companies is recognized by investors and is reflected in stock, and bond, prices.

So, looking forward, we think that the European debt crisis will find some resolution during 2012; not in small part to three of the riskiest debtor nations having elected new governments during the last half of 2011. As for the U.S., we will not try and guess the outcome of the election, but do think that either side will see the benefits of more fiscal responsibility during the next presidential term. And, that this will be positive for the U.S. economy, and markets, for the next several years.

During the early part of the year, you will see changes to the 1099 forms you receive. The changes are the result of new regulations issued by the IRS and they affect all brokers. Charles Schwab & Co. has redesigned their 1099 as a result of these new regulations. Here are a few things to remember:

- The change in the form 1099 is a result of new regulations by the IRS, and provides additional information regarding the sale of your securities.
- All brokers/custodians are affected by the new regulations.
- Schwab will begin mailing 1099's January 31st, but most will not be sent before mid February.

As always, please contact us if you have any questions, or if you would like us to communicate directly with your CPA.

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,

Craig, Howard, Elizabeth, Ward & Ethel

A copy of our SEC Brochure (formerly Form ADV Part II) is available to you at anytime. 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 either of these documents, or inquire as to how your shares have been voted, please contact us at a 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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