PARAGON CAPITAL MANAGEMENT, LLC

July 2012

Election Year Volatility

As we discussed in our last newsletter, the stock market had an exceptionally good first quarter of 2012, with almost all of the sectors of the market reversing their direction from 2011. (Utilities were up in 2011, but down for the first quarter of 2012, Financials were down for 2011, but up for the first three months of 2012, etc.) During the second quarter, the market gave back almost 3%, as there was but a single, observable sector rotation pattern – energy is really suffering this year. As of this writing, it is the only sector that is negative for the year-to-date.

Due to the continuing sluggishness in the global economy, demand for energy production has fallen off precipitously. Additionally, the two tent poles that had been propping up total economic activity and energy demand (India and China) have seen their own GDP growth slow to such a rate that they no longer compensate for the rest of the world, and to such a rate that each of these country's governments is implementing its own "stimulus" plan. Because of the demographic makeup of each of these countries, and especially the central-planning mechanism inherent in the Chinese economy, we do expect these stimulus plans to gain traction during the second half of 2012.

Since energy related companies are typically such tremendous generators of cash flow (and dividends), many of our portfolios are more heavily weighted toward these companies than the market, as a whole, is. Although this has benefitted us greatly in the past, even in times of slow economic growth, this past quarter was not one of those times.

There were two interesting, and very important, Supreme Court decisions handed down in June. First of all, by an 8-0 decision (with one recusal), the Court unequivocally stated that states cannot be penalized for enforcing federal laws, even when the federal government has policies in place to not enforce those laws. Although the specific decision related to an immigration issue, its consequences in differentiating between laws and policies will be far-reaching.

Secondly, and more famously, the Court narrowly upheld the "individual mandate" provision upon which the "Obamacare" legislation rested, by deeming the penalties owed by the uninsured to be a tax, rather than a fee. If the men and women of the Supreme Court cannot agree on this decision, far be it from us to weigh in on the merits of the decision.

However, with these two recent rulings as cannon fodder, it appears as though the presidential election will not play out as simply partisan bickering over which candidate would do a relatively better, or worse, job of restarting the U.S., and the world's, economy. We now have a campaign season that will probably play out along strict, and vitriolic, ideological lines.

It has been observed, over the last several elections, that the perceived benefits or detriments of a particular candidate winning an election are typically seen in the markets before the election is complete. It is not at all unusual for the markets to surprise after the election, because the expected outcome is discounted in the prices of stocks and bonds well before the votes are cast.

This is something that we believe will be particularly noteworthy as the year, and as the election cycle, progresses.

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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

In the ongoing effort to continue to give our clients the most detailed, and meaningful, data available, you may have noticed that your Schwab statement now includes, within the detail sections, cost basis information on your individual securities.

Although this is information which we provided to you on an ongoing, quarterly basis in the past, it is now available on your custodial statements. We trust that you find it useful.

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.

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