

What Now?

As you well know, Paragon is an ever optimistic firm. Over the years we have dealt with negative events in the world, the economy, and the markets but have always been guided by an unwavering belief that ours is a land of opportunity and promise. This sentiment is better, and more famously, described by Warren Buffett:

"Over the long term, the stock market news will be good. In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497." *New York Times, October 16, 2008*

With that mindset as our beacon, we look at the recent past.

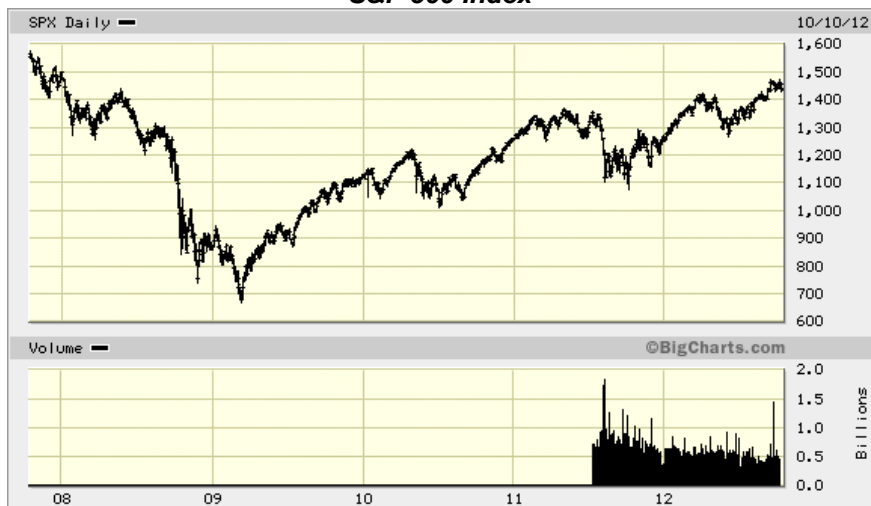
Four years ago, the U.S. economy was in dire straits; Wall Street firms were in turmoil, the stock market had peaked a year earlier and was dropping precipitously, and the only rational decision to be made was for the administration to choose the right "bail out" to prevent a financial meltdown. Both Presidents Bush and Obama chose a monetary policy known as Quantitative Easing. In a nutshell, it was designed to have the government buy financial assets that were not selling in the marketplace, thereby re-liquefying the firms that held those assets and allowing them to re-invest the proceeds and re-invigorate the economy.

As we know, the world did not end. However, the U.S. economy has not rebounded as quickly or robustly as economists thought it would. Sluggish Gross Domestic Product (GDP) growth and a stubbornly high unemployment rate attest to that. Europe's debt crises has yet to be solved. Asia's economic growth has slowed dramatically. Throw into the mix all of our political turmoil of the last four years (including the administration's healthcare law), a Presidential election, the scheduled tax increases for next year, and a myriad of other things you and I could name, and we are still in an environment which is "at risk", to say the least.

However, over the last four years financial assets (represented here by the S&P 500) have done quite well. Also, U.S. interest rates remain at historic lows. (Apparently our debt downgrade did not persuade foreign borrowers that there were better alternatives.) Corporate earnings and cash reserves have rarely been higher. So, why the "disconnect" between what went on in the world and what went on in the markets?

Late 2007:	Financial markets turmoil.
2008:	S&P 500 down 37%.
Late 2008:	Quantitative Easing (QE) 1.
March 2009:	Additional QE1, stock market low.
Late 2010:	QE 2.
Mid 2011:	Escalation of European debt worries. U.S. debt rating downgraded.
Late 2012:	QE 3.

S&P 500 Index



PARAGON CAPITAL MANAGEMENT, LLC

Does the chart on the previous page look like we've had an "anti-business" administration (public perception, not our judgment) for the last four years? Should increasing our national debt by trillions of dollars really make it more attractive to buyers? How have corporate earnings done so well in such a lousy economy?

If the "experts" have learned anything from the past four years it is that the future cannot be predicted. Of course, we've known that for a long time.

Therefore, our outlook remains positive and our opinion is to expect the unexpected. Regardless of who wins the election, no one can predict the consequences of either outcome. Likewise, we never try to forecast economic recoveries, sovereign defaults, or next quarter's earnings report. We try to make reasoned, rational decisions based on the information at hand, and not on some 2, 3, or 5-year notion of what the world stage will look like in the future. That is simply folly.

As always, we strive to identify industries and companies that are profitable in all kinds of economic environments. We attempt to determine appropriate values for those companies, and invest in them when the stock price is materially below what we believe the true value to be. There is no magic in that, and there is no timetable, there is simply work.

Thank you for your continued trust and support.

Craig, Howard, Elizabeth & Ward

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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