

April 1, 2013

Dear Client,

No joke - the stock market advanced during the just completed first quarter by the same amount as last year. And probably for the same reasons, rock bottom interest rates manufactured by the Federal Reserve combined with a slowly recovering domestic economy. Bonds also performed in line with last year with small declines in total return. The good news is since my accounts were recently a bit more exposed to the stock market, returns improved over a year ago.

I have spoken and written about the challenges of investment portfolio management in the current environment. Conceptually, think of a one legged stool. Only stocks will provide the necessary return over the longer-term while bonds likely offer return free risk. But a one legged stool is an unstable fixture, a lot like stocks can be. If one gets too comfortable, it won't be long before you take a tumble.

I mention this because in searching for new investments for client portfolios I come across many attractive businesses at decent prices. The problem is that an investment in these businesses at current prices does not provide a margin of safety. And a margin of safety is what provides protection against a permanent loss of capital, comparable to a reserve chute in sky diving. Since protecting principal is the paramount concern at New West Investment, my portfolios are less than fully invested in stocks at this time.

While on the topic of principal protection, on Valentine's Day I had an epiphany that my client's hearts could be broken not just by the loss of capital but by the theft of capital. I am not naïve on the matter as evidenced by the increased security that New West Investment has implemented over time: locked drawers and file cabinets, data backed up off-site, anti-virus software, computers and routers password protected and all identifying papers shredded when no longer needed. What hit me like a punch in the gut was a forwarded phishing email purported to be from Charles Schwab that requested information from a client that thankfully was not provided. It looked like the "real thing"! Of course there is no "real thing" as financial institutions do not request personal information using emails. But in my mind's eye I imagined, felt, and experienced what it would be like to come in one morning to discover a client's account had been cleaned out by a thief.

According to The Department of Homeland Security the following steps should be taken to protect against cybercriminals: 1) Set strong passwords, change them regularly and don't share them. 2) Keep your operating system, browser and other software updated. 3) Use privacy settings and limit personal information you post online. 4) Be aware of and informed about internet safety. For more information go to <http://www.dhs.gov/stopthinkconnect>. Charles Schwab & Company has instituted a number of policies to reduce client exposure to electronic fraud, the most visible of which is requests for verbal confirmation of signed documents authorizing the movement of funds. Please anticipate that money movements may be delayed as a result, so plan ahead for these possible holdups.

Finally, as required by regulatory authorities, New West Investment Management, Inc. has updated Form ADV Parts 1 and 2 for year-end 2012. There are no material changes to report. You can review the current versions at www.adviserinfo.sec.gov or contact our office, if you prefer that we send you a copy.

Enclosed please find your First Quarter of 2013 portfolio report.

Best regards,

Peter V. Hedberg