NELSON ROBERTS QUARTERLY COMMENTARY

2013 | FIRST QUARTER

ECONOMIC OVERVIEW

Closing at a New High

Both the Dow Jones Industrial Average and the S&P 500 closed at all-time highs on March 28, the last trading day of the first calendar quarter. We ended 2012 by technically going over the fiscal cliff. Congress failed to pass legislation that would have averted the tax increases scheduled for 2013 before year-end. On January 1, in a special session, Congress voted to pass the American Taxpayer Relief Act of 2012 (ATRA) and the next day the market opened up 3%. It has been on a fairly steady climb since then.

ATRA averted a potential economic downturn by moderating previously scheduled higher tax rates. Most of the tax increases included in ATRA will hit the highest income taxpayers the hardest. ATRA also kicked the scheduled expense cuts, known as "sequestration," down the road two months. For most of January, the markets rose despite sequestration fears. The rise stalled in February, and at the end of that month the spending cuts went into effect with much media handwringing and President Obama predicting dire consequences.

March opened with an early rally as everyone quickly determined that sequestration was going to have a minimal immediate impact. The media stopped ranting and the President quickly backpedaled on his doomsday predictions. Cuts related to sequestration are $85 billion out of a total $1.3 trillion in federal expenditures. This is a very modest percentage decrease, although there may be significant issues in particular government departments down the road.

We believe that investor sentiment is moving from skepticism to optimism. In other words, the latte has froth but it is not yet overflowing. We still get calls from clients who worry that it might be time to sell, but we are getting fewer of them. Others have started calling to inquire if they are missing out by not having more money invested in stocks. Over the last three years, more investors were selling their shares in stock mutual funds than were buying. From almost the first week of the New Year, this trend has reversed. Bond funds, which have seen a huge increase in buying volume over the last three years, continue to rake in money, albeit at a slower pace. So investors' fear of stocks is abating and thus far they have shown little concern about the bond markets.

Meanwhile, domestic economic growth has been weaker than hoped, but better than that of most other countries. As a result, the US dollar rose 4% (on average) during the quarter against a basket

INDEX PERFORMANCE	Q1'13	YTD
Dow Jones Industrials	11.93	11.93
Standard & Poor's 500	10.60	10.60
EAFE (international stocks)	5.28	5.28
Russell 2000 (small stocks)	12.39	12.39
Barclays Interm. Gov/Credit	0.26	0.26
Barclays Municipal	0.29	0.29

INSIDE THIS ISSUE

TOP FIFTEEN HOLDINGS:

- ISHARES MSCI EMERGING MARKETS
- DIAGEO PLC ADR
- ISHARES S&P SMALLCAP 600
- VERIZON COMMUNICATIONS
- CHEVRON CORP.
- INVESCO LTD.
- COSTCO WHOLESALE CORP.
- QUALCOMM INC.
- AMAZON.COM INC.
- HEINZ HJ CO.
- UTILITIES SECTOR SPDR
- PAYCHEX INC.
- THERMO FISHER SCIENTIFIC
- ORACLE CORP.
- ADOBE SYSTEMS INC.

ECONOMIC OVERVIEW

Closing at a New High (cont'd)

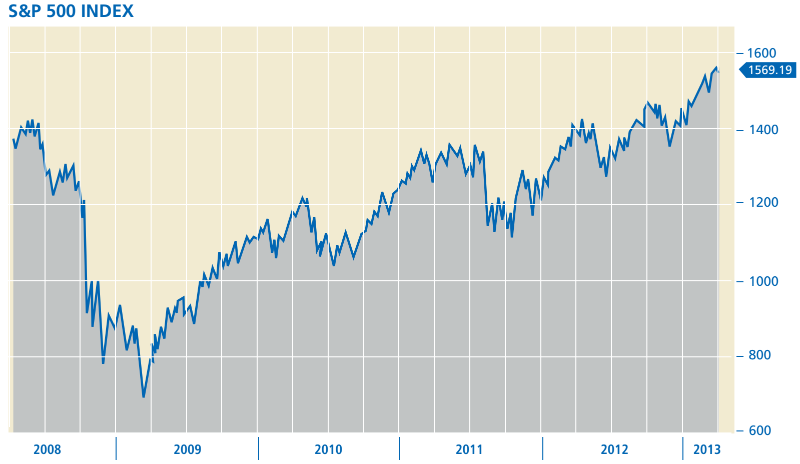
of currencies. US growth has been dampened by the January 1 increase in payroll and income taxes. Europe continues to be a mess, China's growth is moderating, and while emerging economies' performance has been mixed, their stock markets are declining modestly. Late in the quarter we witnessed the beginning of round four of the euro problems. The banks in Cyprus had to close for 12 days as the government negotiated a bailout. This time depositors are projected to lose up to 40% on any deposit over €100,000. The monetary union continues to have problems, but we think that this time the issue will be confined to Europe. Our view is that a European fiscal union will eventually have to be implemented or the Euro will fail and countries will return to individual currencies. There is no possible way to anticipate when or if either of these might occur.

Even though US growth has not been as vigorous as we would like, the economy is beginning to show some signs of life. The housing market is improving in most areas. The unemployment rate is slowly declining. The Federal Reserve has started internally debating when to begin reducing monetary stimulus. There is dissent about this in the ranks of the Fed that is leaking out publicly. Some of the twelve Fed regional Presidents such as Charles Plosser (Philadelphia), Richard Fischer (Dallas), Jeffrey Lacker (Richmond), and William Dudley (New York) are beginning to call for action. Fed Chairman Ben Bernanke's response has been to tighten control by cutting the time between the release of the Federal Open Market Committee minutes and his press conference that follows. Eventually the bond market will force the Fed to act.

Our biggest question is: when will the bond market demand a real return? For more than a year now, the yields on the 10-year and shorter US Treasury notes have been a half percent or more below the expected rate of inflation.

Looking forward, we see little opportunity for return in most bond markets and are therefore assessing how far we can reduce fixed income exposure, increase equity exposure, and still not lose any sleep. We think the stock market will continue going up and do not see any early signs of a bubble. Optimism can be great for stock returns and it will take many quarters before this begins to turn into euphoria.

S&P 500 INDEX



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ASSET MANAGEMENT

Working On Our Investment Themes

There has not been any single event driving the markets' performance as they have climbed to new highs. Instead, it seems that taking worries off the table has encouraged investors to get back into stocks. In the absence of specific market-moving concerns, investors have moved beyond pessimism and are pouring back into the market. Many people are also now more disgusted with the paltry returns they are getting in bonds and money market accounts than they are fearful of the stock market.

At Nelson Roberts, we have used the steady growth of the market to invest our cash balances in companies reflecting our investment themes. One of those themes is the move toward "cloud computing" and the infrastructure build-out necessary to support this trend. We introduced cloud computing in our Q3 2012 Commentary and have now proceeded with purchases of several companies that we believe will benefit from this change in the way information technology is delivered.

In January, we purchased F5 Networks (tkr: FFIV). F5 is a leading provider of application delivery networking (ADN) technology that "secures and optimizes the delivery of network-based applications and the security, performance, and availability of servers and other network resources." More simply, ADNs simplify the connection of users to online applications in the fastest, most secure, and efficient way possible.

We also made our first of two purchases of Amazon.com (tkr: AMZN) in January. We feel certain that most of you know what Amazon does. It is the world's largest online retailer and says it offers "Earth's Biggest Selection" of items for purchase. What you may not know is that Amazon has also gotten into the cloud computing services business. (For more on Amazon, see our Featured Equity article on page 5.)

Finally, in March we purchased Rackspace (tkr: RAX), which describes itself as "the service leader in cloud computing." Rackspace believes its competitive advantage is its unique blend of user-friendly technology and high-touch human support.

Another long-standing investment theme is the aging of the population, both in the US and worldwide. An aging population should drive increased use of healthcare products and services. However, governments will attempt to rein in growing costs with increased regulation and price negotiation. Sorting out where an individual company will end up on this continuum has been challenging. That said, we have decided to once again buy stock in Gilead Sciences (tkr: GILD). We owned Gilead several years ago, but became concerned when the company started making acquisitions that were far afield from its core competency in infectious disease. Our rationale for re-investing was the company's renewed focus on drugs for viral infectious diseases, including new combination treatments for HIV and a very promising new drug for hepatitis C.

In addition to the purchases in new companies we added to our investments in two other businesses: Invesco (tkr: IVZ), because we believe stock market gains will drive business to this large asset manager, and Qualcomm (tkr: QCOM), which will continue to benefit from the dramatic growth in the use of mobile devices.

To fund these purchases, we sold Microsoft (tkr: MSFT) to pursue the more nimble companies providing a pure play in cloud computing, trimmed Sun Hydraulics (tkr: SNHY) and sold Colgate (tkr: CL), both of which had reached the upper limits of our valuation parameters for these companies.

We were also delighted that Warren Buffett agreed with our recent purchase of Heinz (tkr: HNZ) and made an offer to buy the entire company at a nice premium to our original purchase price.

We continue to believe that stocks offer the best return at the most reasonable risk and we will position our portfolio to benefit from the further development of our investment themes.

integrity *[in teg'r te]*
n. honesty, sincerity, completeness

WHERE DO YOU FIND INTEGRITY?

It emanates from tradition, endures market cycles, and sustains long-term partnerships. Trust lies at the heart of what we do, how we serve and who we employ.

WEALTH MANAGEMENT

Why Bonds are Riskier Than You Think

Bonds benefit a portfolio because they help diversify its holdings. They typically have a low correlation with stocks, which means that when equity markets are weak, bond prices tend to hold their own or fall less. Historically, bonds have been a reliable source of income, but despite common perceptions, bonds are not immune to losses. There are two main risks that investors must take into account when buying bonds: interest rate risk and credit risk. Interest rate risk is defined as the change in a bond's price when interest rates go up or down. Credit risk is the risk that the bond issuer will suffer a financial reverse and will not be able to make the interest or principal payments that it promised to. Over the next several years, we think bond returns will be below their historical range of 5-6%, and at best, will be slightly positive. Mathematically, it will be almost impossible for bonds to return more than their coupon because rates are already so low. For example, investment- grade intermediate bond coupons are between 1-3%.

In 1994, Alan Greenspan and the Federal Reserve surprised markets when they tightened monetary policy (after signs the economy was recovering from a recent recession). As a result, interest rates spiked and bonds performed very poorly. That year, intermediate government bonds were down -5.1% and long-term bonds returned a dismal -7.8%. Could we see a negative return from the bond market again?

Let's take a moment to review how bonds work and then we will come back to this question. A bond is in essence a loan an investor makes to the bond issuer. The bond issuer can be the federal government (US Treasuries), government-sponsored entities (Fannie Mae, Freddie Mac), local or state governments (municipal bonds or "munis"), or companies (corporate bonds). In return for making the loan, the investor receives periodic interest payments based on the coupon rate until the bond matures, at which time the issuer repays the principal amount.

For example, let's say that Disney issues a bond for $100,000 for 10 years and in return makes a yearly payment of 2.5% to the bondholder. In this case, the principal value of the bond is $100,000. The yearly payment is $2,500 (the coupon rate of 2.5% multiplied by the face value of $100,000). The length of the loan is the bond's maturity.

If after one year of holding the bond interest rates increased by 1%, then the price of the original bond would fall. This is because with a fixed original coupon of 2.5%, no one would be willing to pay par ($100,000) for the bond. The value of the bond would fall to approximately $93,000, a 7% decline. After receiving the $2,500 coupon payment the bondholder would be left with a negative total return of -4.5% for the year.

Bond prices have an inverse relationship with interest rates: when interest rates increase, bond prices fall. The longer the maturity of the bond, the greater the impact changes in interest rates will have on the bond price. While other factors can influence bond prices (changes in credit ratings, supply and demand), interest rate changes often far outweigh them.

So to answer the question posed above: we believe that we will see negative returns in the bond market over the next two years. We therefore think that investors need to modify their return expectations, minimize the potential for loss and invest defensively by buying only short-duration bonds which are less sensitive to interest rates changes.

FIRM UPDATES

Announcing eMoney: Nelson Roberts is pleased to announce a new tool to assist our clients in managing their complex financial lives. It is called eMoney and will give users single-password access to all of their various accounts. Please see the article on Page 6 for details.

FEATURED EQUITY

Amazon

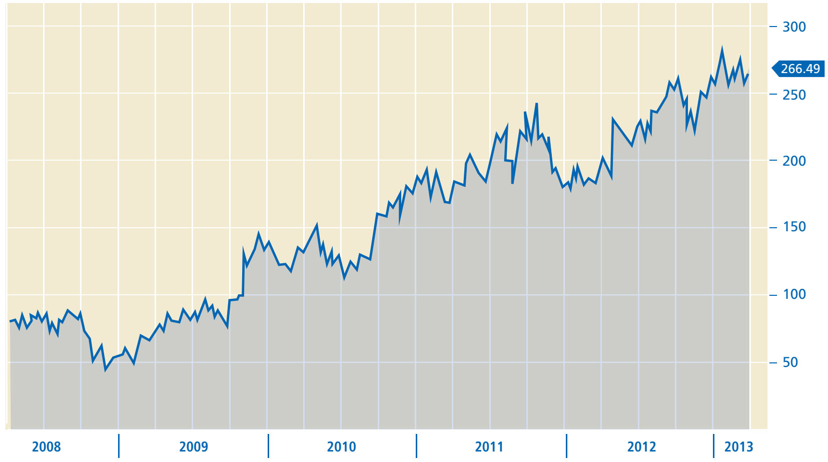
200 million (or more). That is the number of active customers Amazon has and it is a big number. Jeff Bezos founded the company that has become the world's largest online retailer in 1994. He still owns 20% of the shares, gets no bonus and is paid a minuscule salary.

Amazon's $61 billion in sales represent 7% of the $900 billion (estimated) global e-commerce market. Media accounted for 33% of sales, electronics and general merchandise 63% of sales and 4% "other" (co-branded credit cards, fulfillment services and Amazon Webs Services) in 2012. 43% of sales were international.

Analysts have called Amazon "the most disruptive force in the retail sector." For many shoppers, it has become the starting point for online purchases. Amazon has strengthened its relationship with its customers through clever ideas such as the wish list and product recommendations tailored to a particular customer based on his or her buying history. The incessant focus on vast selection, low prices and convenience has kept Amazon growing. The company now employs 88,400 people.

All of these are excellent reasons to own Amazon stock. However, we are most intrigued by Amazon's recent foray into cloud computing, known as Amazon Web Services (AWS). Briefly, cloud computing allows customers to cut capital costs by avoiding big investments in infrastructure, outsource information technology needs for a low monthly cost, access virtually any application and generally create a much more flexible approach to managing information. Last year, Amazon had $1.6 billion in revenues from cloud services. This does not seem like much compared to the $60 billion the company made from selling stuff online, but we think that AWS has the potential to become a multi-billion revenue stream over the next several years, broadening Amazon's revenue base and tying small companies to the retailer. We are also impressed with Amazon's increasing emphasis on attracting third-party sellers, which will add thousands of products to Amazon's line-up.

AMAZON.COM INC.



INVESTMENT TEAM

Brian Roberts, CFA, MBA

Brooks Nelson, CFA

Dennistoun Brown, MD

Ann Oglesby, MD, MBA

Steve Philpott, CFP®, MBA

WEALTH MANAGEMENT

Introducing eMoney

Nelson Roberts Investment Advisors now has a new tool to help our clients deal with the dreaded "account creep." Many of us are juggling a rapidly expanding number of financial accounts. The days when we could run our financial lives with a single checking account, a brokerage account and a credit card seem to be long gone. Many of our clients are bombarded with financial statements every month, including checking and savings accounts, personal investment accounts, multiple flavors of IRAs, college savings accounts, life insurance and even electronic payment accounts like PayPal. And these reflect just the "asset side" of the balance sheet. When major credit cards, retailer credit cards, home equity credit lines and mortgages are added (the debit side of the balance sheet) it is no wonder that people end up with either a pile of paper or the nightmare of multiple passwords to multiple online accounts.

Because we have experienced the challenge of organizing financial data for both our clients and ourselves, we have been searching for a solution. We are excited to introduce a web portal called eMoney that is now available to all of our clients as part of the service Nelson Roberts Investment Advisors provides.

eMoney is a tool that Nelson Roberts will use to help our clients organize and consolidate their complex financial lives under a single username and password. Clients can log in through www.nelsonroberts.com/links to view and track nearly any account that is available online.

Here are a few of the features now available to our clients:

- real-time household balance sheet
- real-time market values of investment accounts
- updated balances of liability accounts
- spending analysis
- historical net worth tracking
- up-to-date realized gain and loss information
- secure online vault to share reports or store financial documents

Additionally, this information can be shared with Nelson Roberts Investment Advisors to build your annual Wealth Analysis. We can use the same data linkages to build reports, perform analysis and help answer many of our clients' questions, such as:

- do I have enough money to retire?
- how would my estate distribute today?
- do I have enough life insurance?

Using eMoney will allow us to more efficiently gather information and proactively address your needs. Please contact us to set up your access.

Past performance is not necessarily a guide to future performance. There are risks involved in investing, including possible loss of principal. This information is provided for informational purposes only and does not constitute a recommendation for any investment strategy, security or product described herein. Please contact us for a complete list of portfolio holdings.

For additional information on the services of Nelson Roberts Investment Advisors, or to receive our Newsletters via e-mail or be removed from our mailing list, please contact us at 650-322-4000.

NELSON ROBERTS
INVESTMENT ADVISORS

1950 University Avenue, Suite 202
East Palo Alto, CA 94303
tel 650-322-4000
web www.nelsonroberts.com
email invest@nelsonroberts.com