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The Compass

Wealth management tips, trends and articles that provide confident navigation for high net worth clients.

As of August 21, 2013

Thank you for your continued confidence and feedback. As always, we encourage you to share this newsletter with friends, family members and colleagues.

Mid-Quarter Outlook
By John M. Silvis, CFA
Director of Investments

The equity markets continued their march higher during the month of July, as the S&P 500 Index finished the month with a total return of 19.6%. The more globally diverse MSCI All Country World Index, or ACWI, finished with a respectable total return of 11.53% during the time period. After peaking at an all-time high of 1,709.67 on the second day of August, the S&P 500 Index has led the global equity markets lower over the last few weeks. The seasonal trend for equities tends to be a headwind during the next few months. Going back to 1952, the average return on the benchmark S&P is -0.07% during the August through October time period, according to Ned Davis Research. Since 1982, the market fared slightly better, returning +0.15% during the three month period. We continue to view the current downturn as a normal consolidation in an advancing equity market environment.

It is often said that the markets like to climb a "wall of worry." As we look out over the horizon in the coming weeks, there are several economic, political or geopolitical issues significant enough to give the markets pause. All eyes will be on the Federal Reserve at its scheduled meeting in September, as speculation continues to point towards some announcement of "tapering" their bond purchases (or reducing the size of quantitative easing) at that time. How and when they do it and the size of the action all remain in flux causing some uncertainty.

The other prominent discussion surrounding the Fed is who will be leading the institution once Mr. Bernanke's tenure is up in January of next year. The leading candidate is said to be former Treasury Sectary Larry Summers with the current Fed Vice Chairperson Janet Yellen also prominently mentioned. President Obama likely will announce his choice in the coming weeks, possibly opening up a confirmation with the Republicans.

And finally what now seems like an annual rite of passage, Congress and the White House are gearing up for their yearly fight over next year's fiscal budget and raising the debt ceiling. Both have caused anxiety for the markets and will gain more media exposure as the deadline approaches.

Overall, the domestic economy continues to slowly show improvement in what we have been calling a "slow growth, low inflation, low interest rate" environment which we believe will continue for the foreseeable future. The most recent survey of Bloomberg economists has the economy growing at 2.3% in the current quarter, higher than the 1.7% in the second quarter of 2013. Housing continues to be a bright spot for the economy with prices rising 12.2% on an annualized basis during the month of May. Housing starts rose to a seasonally adjusted annual rate of 896,000 units according to the Commerce Department. We believe the rate will reach a million by the end of the year.

On the employment side, things are moving in the right direction, as the unemployment rate fell in July to 7.4%, the lowest in over four years. The number of jobless claims, which tends to be a more real time indicator of the economy, fell to 320,000 on a seasonally adjusted basis, registering the lowest numbers since October 2007, before the start of the last recession.

Fairport Global Asset Allocation

On the international front, the Emerging Markets have overtaken Europe as the main area of concern. Through the end of July, the MSCI Emerging Market Index declined -8.62% led by falling equity markets in the BRIC (Brazil, Russia, India and China) countries. The economic slowdown in China continues to unfold as the new leadership looks to transition the economy to a consumption based model. Inflation and wage growth has plagued India and Brazil, slowing growth. As a result, commodity prices, with the exception of oil, have dropped since the beginning of the year. It may be too early to tell, but the commodity cycle is likely coming to an end.

The Eurozone saw positive economic growth for the first time in several quarters, signaling the recession in Europe may be coming to an end. The second quarter growth for the countries using the single currency was 1.2% on an annualized basis. The equity markets in Europe continue to point to better economic data ahead with positive returns so far year-to-date.

Fairport Large Cap

In the domestic equity markets, Small and Mid-Cap stocks continue to lead the markets higher with both outperforming Large Caps on a relative basis. An improving economy and steady wages have helped smaller companies thrive in what could be the beginning of a manufacturing renaissance here in the U.S. After being led by the defensive sectors (Utilities, Consumer Staples and Telecomm), there has been a shift in leadership within Large Cap domestic equities. Leading the way over the last three months have been Financials, Consumer Discretionary and the Industrial sectors. We believe we will continue to see these sectors lead the market in the coming months as more evidence shows the economy is slowly improving and less monetary stimulus is needed heading into next year.

Fixed Income Commentary

Fixed income markets continue to come under pressure, as investors weigh the effects of a potential "tapering" of the Federal Reserve's asset purchase program. While the timing and pace of tapering is debatable, the consensus view is a scaling back of the central bank's $85 billion in monthly bond purchases by year-end under the assumption of a slow but improving economy. As of August 20, the Barclays U.S. Aggregate Index returned a negative 3.26% year-to-date. Weakness has been evenly distributed among all major components of the index, with U.S. MBS, U.S. Treasuries and Investment Grade Corporates returning -2.94%, -2.98% and -4.09%, respectively.

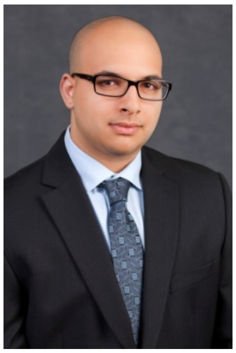
Although the pace of bond mutual fund outflows has slowed, recent performance has prompted investors to pull approximately $89 billion out of bonds since the end of May. In addition, weakness has been exacerbated by an overall lack of liquidity in many fixed income markets as the world's largest bond dealers respond to new capital standards, reducing debt inventories by 76% since the peak in 2007. Going forward, we continue to believe the 10-year Treasury will likely trade in a range of 2.50% to 3.00%. We remain underweight duration in client portfolios, which will help lessen the impact on principal should rates move out of our expected range. In addition, we continue to see relative value in the more credit sensitive sectors of the market.

Meet Janet Havener & Antonio Belmonte
This summer, we welcomed two new team members to Fairport.

Jan joins us as Director of Wealth Advisory Services, offering clients over 30 years of experience in the industry. Prior to joining Fairport this July, she served as Vice President in Glenmede's Cleveland office.

Her addition strengthens Fairport's cadre of senior female wealth management professionals and further enhances the firm's expertise in serving the diverse needs and dynamics of complex high net worth families.

"I have long admired Fairport and their team of highly regarded professionals," says Jan. "I look forward to contributing to the organization and helping to expand their reach in our community. I am particularly impressed with their genuine commitment to financial literacy for women."



Antonio joined us in June in the role of Portfolio Administrator. Antonio most recently worked as Private Client Specialist at Fidelity Investments and is a CFA Level II Candidate.

Antonio works closely with the Investment Team to implement recommended security transactions to achieve diversification and allocation objectives in client accounts

Visit our website www.FairportAsset.com to learn more about **Jan** and **Antonio**.

Teaching Your Child About Money - A Childhood Money Mastery Curriculum
By Christopher R. Isabella, CFP®
Partner

Chances are there was a lot you didn't know about finances when you reached adulthood. This may have cost you money in the form of an overdrawn checking account where the bank heaped on additional fees or credit card debt at very high interest rates. You may have overextended yourself when buying a car, been mystified by the APR on your home mortgage, or you may be one of those unfortunate people who ran into a financial predator who sells high-commission investments, annuities or unnecessary life insurance coverage. You don't want your children to learn these lessons the hard way. What can you do to help them master the complexities of this mysterious thing we call "money?"

The bad news is that you'll have to home-school this curriculum, since primary and secondary schools inexplicably don't teach basic money skills, and the only way your children will be taught about money in college is if they decide to take financial planning courses that are taught at a fraction of all the colleges and universities in the U.S.

Just like any other subject, a money curriculum provides information and teaching that is appropriate to the age. You're not going to be able to teach a seven-year-old about graduated income tax rates or the wonders of compound interest, and she'll have no idea what you mean if you tell her that your home cost $200,000. So consider this as an age-appropriate guideline for developing money mastery in your children.

Ages 6-10
Some experts say that your child's financial education should begin as soon as he or she is old enough not to eat the money. But money is fundamentally about mathematics; when your children can add and subtract, they can start the money learning process.

Step one: Introduce your children to coins first. Explain the value of coins in terms they can understand--how many are required to buy gum, a candy bar or something else they ask you for as you shepherd them past that dreaded candy display at the checkout counter. Help them learn to make change and convert one kind of coins into others. Later, you can do the same for bills.

Step two: Begin giving your children an allowance, and as time goes on, draw an ever-clearer link between chores and allowance. When children make their beds, put their clothes in the laundry and take their dishes off the table, they recognize that their weekly stipend is earned rather than doled out. (This is an area where experts disagree, because of the possibility that a child will decide not to make her bed and then challenge you to dock some hard-to-calculate percent of her allowance. But a compromise is to *require* that the chores be done.) Pay extra for additional jobs your children perform.

Step three: Encourage your children to save some or all of their allowance in a piggy bank. They'll begin to see how the coins accumulate, and how that process can eventually deliver enough of them to buy something they might desire. This is the fundamental essence of saving. Interestingly, research has shown that some children are distrustful of a piggy bank if they can't see where the money went. The state-of-the-art in piggy banks is the Money Savvy Pig, a see-through piggy bank with four slots: save, spend, donate, and invest. The goal is to help kids learn that money isn't just accumulated to buy things.

Step four: Empower your children to manage their own money. Let them decide how their allowance will be used, and let them make mistakes. If they make impulse purchases, and later want something that costs more than they currently have, that becomes a teachable moment.

Step five: Incorporate your money mastery teaching into your everyday activities. In the early years, use your trips to the grocery store to explain prices. When you go to the ATM, you can explain that money doesn't actually come from a machine. Later, when you open bills, you can talk about payment for services like the phone and cable TV.

Step six: Use the power of online gaming. There are online websites and even games that families can use to get the conversation going such as Thegreatpiggybankadventure. Other examples include Feedthepig.org, kids.gov, www.doughmain.com and TheMint.org/kids. PNC Bank and Sesame Street teamed up to create fun videos and games that teach kids about money: http://www.sesamestreet.org/parents/topicsandactivities/toolkits/save. MassMutual, meanwhile, has developed Save! The Game, an app for the iPad and iPhone that teaches kids the difference between wants and needs.

Ages 11-13

As your children reach middle school age, you should start to increase their responsibilities--to help them learn by doing.

Step one: Start to make your children responsible for paying, out of their allowance, more of their daily expenses--school clothes, school lunches, birthday presents--and help them create a budget that allows them to save if they buy wisely. How much money should you give them? Keep track of what you've been spending on their needs and desires over several weeks, and arrive at a reasonable figure that exceeds their weekly or monthly costs by the amount of allowance you intend them to have.

Step two: Have your children set up a savings account, and tell them you'll match every dollar they put in there. The only stipulation is that they can't take out the money you put in. That's earmarked for long-term savings and/or college expenses.

Step three: As you shop for groceries or head to the mall, help your children comparison shop, so they can eventually go out on their own and shop for value. Show them similar items that might have very different price tags. You might also consider using cash for your purchases when you go out with your children. They aren't going to learn very much about money if they see you paying for everything with that magic piece of plastic.

Age 14-17
Your high school-age (pre-college-age) children will soon need to function on their own financially, so consider these finishing touches.

Step one: Help your children set up a checking account, so they can get familiar with staying on top of their account balance and pay their expenses by check.

Step two: Explain how debt works, and show your children a credit card statement that includes finance charges. A surprising percentage of teenagers didn't understand that banks charge interest on the loans they make. Many teens don't even realize that credit cards are a form of borrowing. Consider giving them additional money each week or month for gas purchases, and get them a gas station credit card that they can pay off each month.

Step three: Let your children invest. Your child may not yet have the money to buy a Treasury bill or 100 shares of Apple, but you can buy mutual fund shares at very low initial payments, and many fund companies have programs especially set up for teens. Look together at the fund's most recent holdings report and see how many companies you recognize--and help your children monitor the performance of the investment. Show them on a simple spreadsheet how a regular monthly investment compounds over 10, 20 and 30 years. Chances are you, yourself, will be astonished at the accumulation opportunities of the very young.

Step four: Your children have entered the summer job years, which gives them an opportunity to learn about taxes. Children who have never held a job before and thought that taxes didn't need to be paid until April 15 (or not at all) will learn a quick lesson from their first paycheck statement. Most employers will be withholding far more income tax than your children will end up owing, and FICA payroll tax withholdings provide another teachable moment. (You can, of course, file a W-4 claiming exemption from income tax withholding, but appropriate FICA payroll taxes will still be withheld.)

There's more, of course, such as sitting down with your children and discussing charitable donations (some parents save all their charity solicitations for six months and then sit down to go over which look most appealing) and the need to save receipts if your children go into business for themselves (such as mowing lawns or housesitting animals). Consider those optional elective courses in the overall curriculum.

If your children manage to graduate from this money mastery home-school program, they'll be far better prepared for the real world of money than you probably were. And they'll be far more likely to succeed financially than 95% of their peers, who will enter college with only a dim idea of what a checkbook or budget is.

Our firm has many resources surrounding this very important topic. Please contact a member of your Fairport team for additional information or to ask a specific question about raising financially responsible children.

Fairport News
Read about our most recent accolades, community involvement and continuing education.

Andrew Connors will be presenting a session entitled *Governing a Multi-Generational Family Business* at the Exit Planning Institute's Annual International Conference in September. Andrew's presentation will discuss how a Family Council, Advisory Board and Board of Directors can be effectively utilized to manage succession and work through business issues and family conflicts.

Pam Dagostino, Erin Fleming, Matt Bures and **Lindsay Suster** attended Schwab SOLUTIONS in Columbus in July. The workshop, which is designed to help improve operational efficiency and sharpen client service, included educational sessions on fraud protection and recent regulatory developments.

Rick D'Amico attended AQR University at the University of Chicago in May. Notable speakers included Cliff Asness, Ph.D., Managing and Founding Principal of AQR Capital and Toby Moskowitz, Ph.D., Fama Family Professor of Finance at The University of Chicago Booth School of Business.

Peter DeVito, Emily Drake, Chris Isabella and **Tom Seifert** attended the annual JCF Charitable Tax Seminar *Helping Your Clients Live Well Today & Plan for Tomorrow* in June. The guest speaker was Sandra Pianalto, President and Chief Executive Officer of the Federal Reserve Bank of Cleveland.

Emily Drake and **Heather Ettinger** are looking forward to participating in a financial literacy program for women donors and friends of the Jewish Federation of Cleveland this September. Emily and Heather will serve as table facilitators along with other local professionals. National speaker, spokeswoman and author of *Women's Worth* Eleanor Blayney will be the guest speaker.

Laurel Lawrence coordinated a volunteer trip to Providence House as part of our partnership with the Jewish Volunteer Network. Employees spent a morning in June counting household goods on the premises (toilet paper, blankets, quilts, some types of clothing and food) and organizing and taking inventory of recently donated items. The group was very impressed with the facility and the good work that Providence House does for children and families in our community.

We look forward to our next volunteer opportunity!

Emily Shacklett has been named the Programming Chair for the Cleveland Estate Planning Council.

John Silvis kept current on investment and asset allocation strategies by attending the Morningstar conference in June and JP Morgan conference in July. He was also re-elected to serve as Treasurer and Chairman of the Investment Committee for the CFA Society Cleveland for 2013-2014.

Newsletter Disclosures
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