FAIRPORT ASSET MANAGEMENT
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The Compass

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

As of November 13, 2013

During this season of Thanksgiving, we'd like to express our gratitude to Fairport's clients and friends. Whether you're a long-time client or you've just begun working with us this year, it's our privilege and honor to serve as your financial advisor. From the entire Fairport team, thank you for your continued trust, loyalty and generous referrals.

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

It would be an understatement to say that 2013 is shaping up to be a pretty good year for the equity markets, as most broad indices continued to reach new highs during the past few months. The S&P 500 Index continues to lead the way with a total return of 25.30% through the month of October. The more globally diverse MSCI All Country World Index, or ACWI, had a solid return as well, registering 19.03% during the same time period. Seasonal trends tend to point to further gains as we look to close out the year. November through January tends to be the strongest time frame for equities, adding a tailwind going into 2014. In fact, a study done by Ned Davis Research (NDR) going back to 1927 supports higher equity markets by year-end. Their research indicates when you have a year where the S&P 500 Index has gained 20% or more by the end of October, 85% of the time the index will have further gains by year-end, with the median return of 6%. Stay tuned.

As we passed the midpoint of the year, we mentioned three political issues that we thought would cause concern heading into the second half of the year: the budget impasse, the debt ceiling and the naming of a nominee to be the next Federal Reserve Chairperson.

Janet Yellen, who many believe to be the status quo candidate, received the nomination from President Obama after Larry Summers removed himself from consideration. As she enters the process of congressional hearings on her nomination, it's widely expected that she will be confirmed the next Federal Reserve Chairperson. The real discussion around the Fed is when they will begin to "taper." It was widely expected they would have started back in September, but that was delayed. It is possible the Fed could start in December, but most Fed watchers expect it to be next year.

As we mentioned in our communication on October 11th, it was our view that some sort of short term compromise would be reached on both the debt ceiling and the fiscal budget, delaying the bigger fight down the road. Well, as expected, we will get the opportunity to revisit both issues in the New Year with the budget deadline extended to January 15th and the debt ceiling to February 7th. It's possible that both issues could be solved before the holidays, as both parties are weary of going through another "crisis."

As we look at the overall health of the economy, it is our opinion that we are starting to see gradual improvement in the underlying data. We still are sticking to our "slow growth, low inflation, low interest rate" mantra until we see further evidence, but we see risk to the upside heading into 2014. The third quarter Gross Domestic Product (GDP), a measurement of economic growth, grew 2.8% beating most economists' predictions. The economy added 204,000 jobs in the month of October, well ahead of expectations, but the unemployment rate stays stubbornly high at 7.3%.

Bloomberg's survey of Economists predicts GDP growth in the fourth quarter of 2.1%, but has next year rising to 2.6% for all of 2014. As we have mentioned several times in recent weeks, we see reasons to be optimistic on the overall health of the economy as we head into 2014, believing growth estimates will rise as we progress into the New Year. We have highlighted over the past twelve months that we see the housing recovery as a catalyst for better growth in the coming quarters. Housing prices are rising, up over 12% year over year, in all 20 markets within the Case-Shiller Home Price Index, indicating a broad recovery. We see housing as a bridge to a bigger unfolding economic story that is the expanding energy renaissance within the United States. Over the last few months, the U.S. has become the world's biggest producer of oil. Gasoline prices continue to fall, which benefits all consumers.

Fairport Global Asset Allocation

Europe continues to claw itself out of its economic malaise with what should be another quarter of positive growth to close out the year. With the recession now behind the Eurozone, the European Central Bank (ECB) can focus on growth going forward. In what many saw as a surprise move, the ECB cut interest rates earlier this month, indicating it is taking a more proactive approach heading into 2014. Inflation is still low and unemployment is still too high, but it appears that the continent may be finally turning the corner. Like in the U.S., the equity markets in Europe have responded positively to monetary easing, with most recording double digit gains so far for the year.

The Emerging Markets continued to struggle in 2013 with the return of the MSCI Emerging Markets Index virtually flat for the year, ending October with a total return of 0.29%. The issue of slower growth and rising inflation continues to plague all the BRIC countries (Brazil, Russia, India and China). The story in China remains the direction of economic growth as it struggles to transition its economy. The goal is to shift to a consumer-driven economy like the U.S. (roughly 70% of our GDP is driven by the consumer). Growth is likely to fall below 7% next year unless the government is willing to add more stimulus in the way of lower rates.

Fairport Large Cap

The rally in the S&P 500 Index has been broad-based for the first ten months of the year. The benchmark has a rare opportunity to see all ten sectors (Industrials, Financials, Technology, etc.) have a return of at least 10% for the year. This is known in the industry as ***"going 10 for 10"*** which has not happened since 1995. Earnings for the nearly completed third quarter have come in slightly better than expected, growing 6% over last year and with nearly 70% of companies reporting better than expected earnings in the quarter. Consumer Discretionary, Industrials and Healthcare all have outperformed the index with returns averaging over 30% so far this year. We remain committed to the cyclical sectors and look for them to have strong relative performance through the first quarter of 2014. It would not surprise us if multiples (the number derived from dividing the price by the forward earnings) expand next year and we see earnings continue on their growth path into 2015.

Fixed Income Commentary

Given the sharp rise in rates earlier this summer, it is our view that interest rates are likely to remain relatively range bound in the near-term, with the 10-year Treasury trading between 2.40% to 3.00%. At 2.72 % the 10-year is currently trading near the midpoint of our expected range. While a December taper is on the table, March appears the more likely scenario at this time. In our opinion, the 3.00% resistance level on 10-year yields is likely to hold for the remainder of the year, absent a string of better than expected economic reports (November Payrolls, Manufacturing PMI's, etc.) that could help build momentum towards an earlier than expected tapering of the Federal Reserves' asset purchase program.

Longer-term, the process of returning to a more normalized level in rates probably started in May/June of this year. We are in agreement with some recent remarks made by bond legend Dan Fuss, who stated that "we are in the foothills of a secular rise in interest rates." According to Fuss, today's environment closely resembles that of the late 1950s, when long-term rates stood at 3.0% and began their upward ascent. Yields are likely to remain contained on the short-end of the curve, as many analysts believe we are still a couple years away from the Fed actually raising interest rates or tightening monetary policy. However, the yield curve is likely to remain steep, with most of the back-up in rates occurring near the back-end. Given our outlook, we remain short duration relative to the Barclays U.S. Aggregate (approximately 90%), and overweight spread product (i.e. high yield and investment grade corporates) in Fairport's fixed income portfolios. In addition, we believe it will become increasingly important to incorporate alternative fixed income strategies whose performance is not directly tied to the movement in interest rates.

Generational Insights at FAIRPORT NIGHT

Last week, over 200 guests gathered at the Global Center for Health Innovation for our annual appreciation event. Clients brought family members and friends spanning multiple generations. Baby Boomers made up over 50% of the crowd, followed by Generation Xers at 20%, Matures at 15% and finally Millennials at 7%.

National speaker and expert on the generations, Cam Marston, entertained the audience with his informative, engaging and humorous presentation on demographic trends in the United States. If you missed it, Cam recorded a short follow up video specifically for Fairport. Visit our website, www.FairportAsset.com to watch the video and access the slides from his presentation. If you have further interest in Cam's work, you can purchase his books on Amazon.com or contact him directly via email at cam@generationalinsights.com.

Timing of Year-End Gifts to Charities and Individuals
By Rachel Margulis, CPA
Consultant

Gifts to individuals and donations to charitable organizations are a common part of year-end tax planning, but making sure your gifts are applied to the correct tax year can be a challenge.

Charitable contributions
In order for a charitable contribution by mail to be counted as a 2013 donation, it must be post-marked by December 31, 2013. If it is getting close to year-end and you want to ensure that your donation is properly applied to the 2013 tax-year, you can send the donation check via certified mail. This allows you to have a record of the exact date on which the check was mailed. Alternatively, you can make your contribution using a credit card on the charitable organization's website. An online receipt is generated as soon as you submit your payment, showing the amount and date of your contribution. This receipt should be printed for your tax records. A charitable contribution made with a credit card is deductible in the year the contribution is made, not when you pay the credit card bill.

Remember the IRS requires written acknowledgement for contributions of $250 or more, stating the amount and date of the contribution, and if any goods or services were provided by the organization in consideration for the donation. For contributions under $250, either a bank record showing the contribution or a letter from the charitable organization are sufficient forms of documentation.

Gifts to individuals using your annual exclusion
Gifts to individuals have slightly different rules than contributions to charity. A taxpayer can gift up to $14,000 (the current annual gift tax exclusion) to as many individuals as he/she wants without necessitating a gift tax return filing. However, if you send a $14,000 check to your daughter at the end of 2013, and she does not cash the check until January 2014, that gift is technically a 2014 gift. If you make any additional gifts to your daughter in 2014, you would be required to file a gift tax return for 2014. In order to ensure that your gift is applied to the appropriate tax-year, be sure to have the gift recipient cash the check before year-end. As an alternative, you can use a bank check or certified check to make your gift. In this case, the date of the gift is the date the bank or certified check is issued.

It is nice to be generous this time of year. Please contact a member of your Fairport team with any questions about individual or charitable contributions before year-end. Happy gifting!

Fairport News

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

Join us in congratulating **Emily Drake** on her new Accredited Estate Planner® (AEP®) certification.

The AEP® designation is a graduate level specialization in estate planning, obtained in addition to already recognized professional credentials within the various disciplines of estate planning. The AEP® designation awarded by the National Association of Estate Planners & Councils (NAEPC) to recognize estate planning professionals who meet stringent requirements of experience, knowledge, education, professional reputation, and character. An AEP® designation holder must embrace the team concept of estate planning and adhere to the NAEPC Code of Ethics.

Rick D'Amico attended the *InvestmentNews 2013 Alternative Investments Conference* in September in Chicago. The conference explored the latest products and strategies available to financial advisers and provided actionable guidance on portfolio implementation.

Pete DeVito kept current on timely planning topics by attending the one day Financial Planning Association/NEO Annual Fall Symposium in October. Sessions included "Solving Client Volatility," "Government Relations and FPA Advocacy" and "New Options for Long Term Care Financing."

Heather Ettinger was a featured speaker on a national WealthManagement.com webinar titled *Meaningful Differentiators: The Key to Closing More Business with Executive Women* that discussed best practices for financial advisors to attract and retain the business of women generally and female executives in particular.

J.T. Mullen has been appointed to the board of the Catholic Community Foundation (CCF). The Foundation supports Catholic Worship and Formation, Catholic Education and Catholic Charities. CCF was formerly known as the Catholic Diocese of Cleveland Foundation.

Emily Shacklett and **Heather Ettinger** presented a break out session at the OSCPA's 2013 Cleveland Accounting Show event on October 30th. Their presentation, *Women as Agents of Change: Their Emerging Role in the Family, Business and Society and Its Impact on the Financial Services Industry,* explored strategies to attract, serve and retain female clients and advisors.

Newsletter Disclosures

This newsletter represents an assessment of the economic and market environment at a specific moment in time and is not intended to be a forecast of future events or any guarantee of future results. It is for informational purposes only and should not be relied upon as research or investment/financial planning/tax advice. It should not be considered as a solicitation or recommendation by Fairport to buy, sell or continue to hold securities or other investments. Past performance is not a guarantee of future results, and is not indicative of any specific investment. It should not be assumed that the investment process and strategy discussed herein has been or will prove to be profitable. Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.