



May 2011

Mid-Quarter Outlook

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Director of Investments

The equity markets continued to grind higher building off the momentum from what was one of the better first quarters in the last 15 years. For the month of April, the S&P 500 Index rose nearly 3%, pushing the year-to-date return higher to 9%. If history is a guide, the markets should run into more formidable resistance in the months ahead, as many investors head the old adage of “sell in May and go away.”

According to Ned Davis Research, the rolling six month period of May through October has historically been the worst seasonally with an average return of just 1.5% going back to 1952. This is in sharp contrast with the return of 6.5% for the rolling six months between November and April of the same time period.

The economy continues to grow, albeit at a slower than expected rate, with GDP growth of 1.8% during the first quarter. Seasonal weather and a spike in crude oil took most of the blame for lower than expected growth. It remains to be seen if the recent softness was just a lull in an otherwise self sustaining expansion or the beginning of a deceleration in growth going forward. According to Bloomberg’s survey of economists, the consensus is still projecting GDP growth for 2011 to be 2.9%.

Corporate profits for the first quarter are coming in ahead of last year, with those companies that have already reported advancing 15% over the same time last year. Over 70% of those companies have beaten the forecasted earnings of analysts. Strong cash balance sheets continue to drive mergers and acquisitions, with Microsoft buying the internet telephony company Skype for \$8.5 billion in cash. Stock buybacks and dividend increases are also on the rise.

Federal Reserve Chairman Bernanke again reiterated his intent to continue with the purchasing of government bonds through June of this year. With this commitment and the softer economic numbers recently, it remains unlikely that the Fed will raise rates later this year. The job market has demonstrated slow improvement during the year with the payroll numbers in April showing the economy adding 244,000 jobs during the month; however the unemployment rate, a lagging indicator, is edging up to 9%.

As we head into a slower time of the year for the equity markets, we believe the fundamentals remain attractive and the markets will continue to grind higher over the coming quarters aided by a strengthening economy.

Fairport Global Asset Allocation

The outperformance of both Small and Mid Caps since the market bottom back in March of 2009 has come under some pressure since the start of the second quarter, with both Small and Mid Caps trailing the S&P 500 Index since the beginning of April. Portugal became the newest country under the Eurozone umbrella to request a bailout, joining the company of both Greece and Ireland. The long term structural issues have still not been addressed and further assistance for Greece is likely. However, the international developed markets as represented by the MSCI EAFE Index remain resistant, outdoing the domestic markets so far this quarter. Commodities prices led by gold, silver and crude oil have reversed their earlier gains and continue to come under pressure.

Fairport Large Cap

We continue to be weighted towards the cyclical sectors of the markets such as Industrials, Technology and Energy that will benefit from an improving economy. We remain underweight Financials, as the sector has come under renewed pressure during the quarter, as well as Utilities. We also maintain a slight overweight in Healthcare as the sector has performed well on a relative basis for the year and exhibits attractive fundamentals.

Fairport Fixed Income

Since the March employment report peak on April 8th, 10-year Treasury yields have fallen nearly 50 basis points to 3.2%, breaking below the bottom of a six-month trading range. During the period, Treasuries benefited from a flight to quality, driven by renewed concerns over Euro sovereigns and a potential debt restructuring in Greece. In addition, signs of softer U.S. economic growth, a Fed likely on hold until 2012 and a stronger U.S. dollar also contributed to the rally. We remain at approximately 90% benchmark duration in taxable fixed income portfolios, favoring corporate bonds (high yield and investment grade) and emerging markets debt relative to U.S. Governments.

The municipal bond market also staged an impressive rally over the period, with high-grade yields down 50 basis points since mid-April. The rally was sparked by a number of factors, including the solid month-long rally in the Treasury market, a sharp drop in bond fund outflows and a continued supply drought. Issuance for the year now stands at \$69.3 billion, or a pace approximating 48% of last year's total. Municipal bonds continue to look relatively attractive for income-oriented investors in high tax brackets.

Welcome to Fairport!

In case you missed our good news, please join us in welcoming **J.T. Mullen** to Fairport. At the end of March, we announced his appointment to Chief Investment Strategist and Chair of the Investment Committee. J.T. most recently served as CFO of The Cleveland Foundation, the second largest community foundation in the country. His addition to Fairport created plenty of excitement amongst our client and friends this spring. Even *Crain's Cleveland Business* joined in the celebration by featuring J.T. in an article that dubbed him "Cleveland's E.F. Hutton!" [Click here to read more.](#)

The good news continued into May when we announced the addition of **Sally Staley** as advisory member of Fairport's Investment Committee. Sally currently serves as Chief Investment Officer at Case Western Reserve University and oversees the investment management of the University's \$1.4 billion endowment. [Click here to read more.](#)

Are you a woman looking for the tools to take control of your financial future? Or do you have a woman in your life who would like to be more engaged in her finances?

You are invited to join our female partners at a Solutions for Women™ event this June. Earlier this year, Heather Ettinger's study group, Family Wealth Advisor Council (FWAC), conducted a national survey of over 500 women with the goal of gaining insight into their wealth advisory needs and preferences. The results of the survey are in and they might surprise you!

Of the women surveyed...

- Over 50% believe that divorce is a risk that could prevent them from achieving and maintaining financial independence over their lifetime.
- The most common transition challenge in the next year is providing financial and emotional support for both their children and their parents; second is the expectation of some type of job transition.
- Nearly 100% feel it is important for their financial advisors to spend a significant amount of time upfront to understand their entire life picture.

Join us at an event below as we reveal more startling statistics about women and wealth and discuss what you can do to better prepare yourself for your future.

Thursday, June 9th
Luncheon from 12-1:30 p.m.
Shoreby Club
40 Shoreby Drive
Bratenahl, OH 44108-1191

Tuesday, June 14th
Breakfast from 8-9:30 a.m.
The Union Club of Cleveland
1211 Euclid Ave
Cleveland, OH 44115-1865

Tuesday, June 28th
Luncheon from 12-1:30 p.m.
Cleveland Skating Club
2500 Kemper Road
Shaker Heights, OH 44120

Bring a friend! Seating is limited so RSVP to Kristen Gall at 216-431-3447 or Kristen.gall@fairportasset.com as soon as possible.

Solutions for Women™ is for informational purposes only and should not be relied upon as research or investment/financial planning advice. The session is not a solicitation or an offer to buy or sell securities.

Fairport News

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

Andrew Connors and **Emily Shacklett** presented “*Aligning Family Values with Business Value*” as part of the CWRU Weatherhead Family Business Speaker Series in May. As advisors in Fairport’s business owner practice group, Andrew and Emily understand that achieving success as a family as well as a business is a unique challenge for family business owners. Drawing on their experience, their presentation focused on case studies and best practices as well as key strategies that have led to both business and personal satisfaction for their clients.

Peter DeVito attended the Great Lakes Federal Tax Institute planning workshop in May.

Heather Ettinger attended a Family Wealth Advisors Council (FWAC) meeting in March. The themes were Practice Management and Annuities.

Fairport Investment Committee members **J.T. Mullen**, **John Silvis** and **Rick D’Amico** attended the Charles Schwab Investment Outlook Conference in Columbus, Ohio in the beginning of May.

J.T. Mullen was appointed chair of the investment committee for the Kelvin and Eleanor Smith Foundation in April. The Foundation is approximately \$145 million in assets and distributes about \$7 to \$8 million a year in grants. J.T. joined the board of the foundation last fall.

Newsletter Disclosures

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