FAIRPORT ASSET MANAGEMENT
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The Compass
Wealth management tips, trends and articles that provide confident navigation for high net worth clients.

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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

Overall we continue to remain positive on the backdrop for the equity markets going forward. Economic data led by the weekly unemployment claims, consumer confidence and productivity continues to trend positive. However, the economy has continued to muddle along with GDP growth in the first quarter coming in below trend at 2.2%. The fear of another recession on the horizon has faded considerably over the last few months, but a catalyst is lacking for better growth in the quarters ahead. Economists surveyed by Bloomberg still see subdued growth going forward, with the median expectation for GDP growth at 2.3% for 2012.

With the primaries basically behind us, the focus in the coming months will shift toward the upcoming presidential elections. History would indicate that presidential elections tend to be a positive catalyst for the equity markets. Looking at the four year presidential cycle going back to 1948 (post World War II), the fourth year (or election year) has seen positive returns for the S&P 500 Index 80% of the time with the median return of 9%. The first year of the cycle (the year after the election), markets tend to struggle with positive returns only 56% of the time with the median return of 5%.

Another strategy often used by investors of "sell in May and go away," reducing your exposure to stocks at the beginning of May and returning at the beginning of November, has worked well the last two years but history would suggest this year may be different. Ned Davis Research, using the returns of the Dow Jones Industrial Average going all the way back to 1900, found that the median return from the beginning of May to the beginning of November has been 2.6%. However during presidential election years, the median return has been quite respectable at 4.4%.

In and of itself, we would not put too much weight into the seasonal trends of election cycles and their influence on the stock market. However, coupled with the positive fundamental backdrop, we would recommend that clients stick with their current allocation in equities.

Fairport Global Asset Allocation
As we look outside the domestic markets, the trouble in Europe continues to dominate the global stage. The European Central Bank (ECB) continued to add liquidity to the banking system, executing a second tranche in March of the Long Term Refinancing Operation (LTRO) totaling over $700 billion. Success was limited and the prospects of a recession remain high. The French electorate decided on change sending President Sarkozy packing, questioning the Franco-German alliance. The MSCI EAFE Index, a benchmark for developed markets, fell 1.96% in the month of April but remained positive for the year with a total return of 8.69%. Developments in Greece remain fluid as some European officials speak openly of the possibility that Greece could exit the union. ISI Group recently did a survey of over 1,500 investors on the topic of Greece and the investors placed odds at 54% that Greece will announce their intention to leave the euro by the end of 2012. This remains unlikely, but with austerity measures crippling the economy, what seems like the extreme cannot be ruled out.

The MSCI Emerging Market Index dropped 1.2% in April but still held onto a total return of 12.7% year-to-date through the month of April. The global easing cycle we previously mentioned continues to pick up steam as India cut its interest rates for the first time in three years by 50 basis points or 0.5%. China announced a second cut in banks' reserve requirement ratio (RRR) this year with many analysts predicting this is a prelude to their central bank lowering interest rates later this quarter. Both these actions should help stimulate economic activity in the months ahead and should act as a catalyst for their equity markets in the months to come. We continue to see better prospects in emerging market equities versus those in the European continent.

Fairport Large Cap

The S&P 500 Index fared best during the month of April, declining less than 1%. For the year through April, the benchmark index returned 11.87% outpacing most of the international indices. We remain overweight domestic equities versus the MSCI All Country World Index, as we believe the risk/reward ratio still favors the U.S. Within our large cap portfolio, we have made little change to our sector allocations with Industrials and Technology as our favorite overweights. We remain underweight Financials but have selectively added to positions we view as undervalued to take advantage of the relative outperformance of the sector over the past few months. So far 2012 first quarter earnings have been good with over 65% surprising on the upside and earnings growth around 6% versus last year. Price to earnings multiples on the S&P 500 Index remain attractive, currently at a little over 13x forward earnings which is below the historical median of over 15x forward earnings.

Fixed Income Commentary

Year-to-date fixed income asset class returns continue to be driven by strength in both emerging markets local currency debt and high yield corporates. Through April 30th, the JPMorgan Government-Emerging Markets Global Diversified and Barclays Capital U.S. Corporate High Yield indices returned 9.34%, and 6.44%, respectively. While further spread compression appears limited, as emerging markets and high yield debt trade slightly rich relative to 10 year averages, we continue to recommend exposure to both asset classes based on high coupons and sound fundamentals.

Interest rates continue to trade at depressed levels, with the 10-year Treasury currently yielding a paltry 1.78%. This is less than the dividend yield for the S&P 500, MSCI World, MSCI EM and MSCI EAFE indices, which yield 1.98%, 2.72%, 2.83% and 3.63%, respectively. Rates will likely remain constrained in the near-term, influenced by the Fed's maturity extension program (i.e., Operation Twist), credit market supply-demand dynamics and uncertainty in Europe spurred by concerns over political paralysis in Greece.

Practice Group Spotlight

Each quarter, one of our professionals will address an issue faced by business owners, executives or women. This month business owners' practice group leader, Andrew, will share his insights on aligning family and business values.

Aligning Family and Business Values

By Andrew R. Connors, CFP®
Vice President & Advisor

In 1998 a family business in Cleveland, Ohio was sold for near liquidation value. The history of this company is similar to many others: A decades old company grew and thrived under the founder. But as time, and each generation passed, the company struggled to adapt to changing business environments, failed to address leadership and ownership issues in a timely fashion and lacked an owner-focused wealth strategy for each generation that aligned with the goals of the business. I know of this company because it was founded by my great grandfather. The reasons for the rise and decline of my family's business were, and are, similar to many other family businesses.

When surveyed, 64% of family business owners admit they have family members in positions for which they do not have the qualifications or experience to be successful. Less than 30% of these family businesses have a strategic business plan that addresses leadership and ownership transitions. Without a leadership transition plan in place, 85% of family businesses fail at the death of the founder/owner. In contrast, on average only 10% failed after an orderly transition and 5% after retirement of the owner. Though many of these statistics are well-known, it does not change the behavior of many family businesses. In fact, 60% of family businesses admit to putting the short term priorities of the family ahead of the longer term interests of the business.

Failing to align business and personal wealth management strategies may result in the inefficient operation of the family business and, more notably, the erosion of the family's wealth. For families who are business rich and cash poor, this can be especially destructive to growing and preserving wealth as a slowdown in the business will magnify the loss of personal wealth. This specific issue has directly affected many unprepared owners during the most recent recession. If a key priority is to grow, preserve and transfer family wealth from one generation to the next, then the four primary dimensions below must be integrated as part of an intentional and ongoing business and personal wealth plan. Doing so will ensure that the long term financial needs of the family and the owner align with the goals and direction of the business.

Ownership: Execute and maintain shareholder's agreements that outline how and to whom shares can be sold. Understand transition options and how to most efficiently move ownership to, and generate liquidity for, each generation.

The Business Portfolio: Avoid pursuing short term performance at the expense of long term company health. This is where successful families understand the difference between ownership and management. Being able to attract strong non-family managers who can help grow the business and your wealth can be a challenge and, as such, a strong and independent advisory board can be priceless.

Wealth management: With time and efforts spent focusing on the day-to-day of the business, owners rarely have the time to implement any proactive strategies that would manage risk, reduces taxes and preserve and grow their wealth. A true wealth manager that can act as a financial quarterback, take a big picture view and proactively execute best practices is a significant differentiator of successful family businesses.

Family: The family dimension, when addressed with foresight, is about training and mentoring each generation so that individuals can identify their strengths and find their role in the business and the family. This is the mechanism by which the family's traditions and wisdom are shared and passed along.

Family businesses that address these four areas in a deliberate way can expect to maximize the company's value, control how and when they transition the business and grow and preserve their personal net worth. The process of implementing a wealth management and business strategy in unison is ongoing and, when done correctly, results in a strong engine of growth for the family and the business. However, many family business owners, like mine, start this process too late and in a reactive manner that results in the family and the business never realizing their potential. To see how you compare to other family businesses in addressing these important issues, email us for a one page assessment worksheet.

We are happy to be a resource to your family business. Do not hesitate to contact us to discuss the specific challenges you may be facing.

Sources: Mass Mutual American Family Business Survey, Laird Norton Tyee Family Business Survey, Family Wealth Report Survey, U.S. Trust Wealth Insights Survey

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

Ken Coleman will finish his two year term as Board Chairman of Midtown Cleveland, Inc. at the June annual meeting. He will remain on the Board as Vice-Chair. **Paul Zappala** continues to serve as the Chairman of Midtown's Security Committee.

Rick D'Amico, J.T. Mullen, Aaron Nuti and **John Silvis** attended the Charles Schwab Investment Outlook in April in Columbus. Our Fairport professionals joined industry leaders and peers for a day of discussions and perspectives on current economic, investment and political climates.

Rick D'Amico is currently in New York City participating in The Advisor & Broker-Dealer's Forum on Retail Alternative Investments. Conference topics include performance measurement and benchmarking, how alternative products fit in portfolios and distribution issues.

Fairport is partnering with Charles Schwab for *Financial Life Planning for Women* month. Throughout May, Schwab is putting the spotlight on female investors with special workshops at retail branches. Fairport's female partners **- Emily Drake, Heather Ettinger** and **Emily Shacklett -** are presenting five of these workshops in Westlake, Akron, Toledo and Columbus. Topics include investing and asset allocation, building a financial plan, finding the right advisors and raising financially responsible children.

Heather Ettinger and **Emily Shacklett** presented *Solutions for Women*™ to the Cleveland Clinic Women's Professional Staff Association in April. **Heather** was also a presenter at Northern Ohio Planned Giving Council's annual Planned Giving Day in May. Her session focused on inspiring and engaging women for planned gifts.

Kristen Gall joined the Friends Committee for United Cerebral Palsy (UCP) of Greater Cleveland. The mission of UCP is to empower children and adults with disabilities to advance their independence, productivity and inclusion in the community. The Friends Committee is a diverse group of young professionals with the goal of raising awareness of UCP in Cleveland.

Tom Seifert supported Beech Brook at the Fleet Feet 5k Run in April. In addition to participating with approximately 270 other athletes, he was on the planning committee and his remarks kicked off the race day. Tom also served on the event committee and was a table host at the annual Beech Ball fundraiser in May celebrating Beech Brook's 160th birthday.

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