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 August 20, 2014
As always, we encourage you to share this newsletter with friends, family members and colleagues.

Mid-Quarter Commentary
By John M. Silvis, CFA
Chief Investment Officer

The global equity markets have continued to see increased volatility over the last few weeks as we traverse the summer months. As we have mentioned on numerous occasions, corrections routinely occur during both cyclical and secular bull markets (it is our opinion we are in a secular bull market that has several more years ahead of it). According to Ned Davis Research, it has been 706 days since we have had a correction of 10% or more, well past the average of 106 days. Keep in mind that we have gone periods of several years without a 10% correction.

Over the last few years, there has been a pattern of markets correcting 4-6% then investors rushing in to “buy the dips.” From the high, that would put us in a range of 1871-1911 on the S&P 500 Index (we got down to 1,928). From a technical standpoint, RenMac (a leading technical research firm) believes good support is at 1,900 which is well within that range. Also keep in mind that we are in the May-October period which tends to be more volatile on returns.

A couple of points:

- The S&P 500 Index came under pressure at the beginning of the month dropping -2.69% for the week ending August 1^{st} and -3.94% since the peak on July 24^{th} at the level of 1,991. The news media has mentioned a plethora of reasons why the markets had sold off, including, but not limited to: Russian sanctions, the ongoing Ukrainian conflict, potential shift in Fed Policy, slowing growth in Europe, Israel/Hamas and the Argentina debt default. But true to the volatile summer tantrums, the index has since bounced back as we again close in on the previous high, ending today at 1,987 on the S&P 500 Index.

- While global conflicts can certainly derail the markets in the short-term, the overall health of the global economy remains in good shape. Over the last few weeks we have seen better economic reports indicating that the economy, especially the domestic economy, is starting to pick up steam.
  - 2^{nd} quarter GDP was reported at 4.0% on an annualized basis. This figure is much better than expected and better than the 1^{st} quarter which was revised up to -2.1%.
  - Consumer confidence increased for the third consecutive month, reaching the highest level since 2007.
  - The U.S. has added an average of 231,000 jobs per month over the last six months; this is the highest number since 2007.
  - Housing starts were up sharply in July, rising to an annual rate of 1.093 million units. 30 year mortgage rates closed last week at 4.12%.

- Earnings season has been robust, with 2^{nd} quarter earnings growth on track to be near 11% year-over-year according to the ISI Group. While some sectors have done better than others, the overall trend has been positive and better than 1^{st} quarter growth of 6%, indicating earnings are accelerating not slowing.

- The Dow Jones Industrial Average has hit new highs 15 times this year. Its done this 27 times in the last 109 years (including last year). The median return in those years has been 20.8%. Finally, Bank of America/Merrill Lynch’s monthly measure on Wall Street Bullishness came in with a reading of 50.8 for July. Historically, when the indicator has been this low or lower, the total returns of the S&P 500 one year later has been positive 100% of the time with an average return of 27%.

As kids go back to school, summer is coming to an end and we can start to look towards the fourth quarter which has historically been positive for the equity markets. We remain overweight equities versus our strategic benchmark and believe valuations are attractive in the current economic environment.

Fairport Global Asset Allocation
Over 87% of the global equity markets that make up the MSCI All World Country Index (a benchmark comprising of global equity markets in 44 counties) are currently trading above their 200 day moving average, an indication that trends remain firmly positive heading into the final stretch of 2014. The Chinese equity markets, as measured by the Shanghai Composite Index, is showing signs over the last few months that it may be breaking out from its negative trend of the last few years even in the face of slowing economic growth. The Indian markets have led the BRIC countries in fueling positive returns for the MSCI Emerging Markets Index after recent elections ushered in market-friendly leadership. Brazil is up next with presidential elections in October of this year. Europe remains somewhat of a conundrum as Italy slips back into a recession and growth proves elusive for both France and Germany. Further stimulus from the ECB is expected in the coming months as confidence in the central bank is waning.

Fixed Income Commentary
Heightened geopolitical risks in the Middle East and Ukraine last week helped drive 10-year treasury yields to their lowest level (2.30%) in over 13 months, breaking through the lower end of our expected trading range (2.40% to 3.00%). According to technical analyst Jeff deGraaf of Renaissance Macro Research, given the recent break of support, the next move in rates now counts lower with a possible test of 2.20%. Additionally, weakness in European economic activity continues to put downward pressure on German Bonds and European peripheral debt, making U.S. treasuries appear relatively attractive to private institutions and foreign central banks. In our view, the relative attractiveness of U.S. Treasuries compared to other developed market bonds, limited supply growth in total financial market debt outstanding and minimal inflation pressures are all factors that could keep interest rates contained in the near-term. Needless to say, the grind lower in yields in 2014 has come as a surprise to many economists. In a survey conducted by Bloomberg in April of this year, 100% (i.e., 67 out of 67) of economists expected interest rates to increase over the next 6 months.

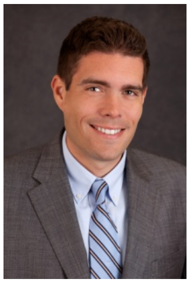
Longer-term, we continue to believe there are a number of headwinds facing the sector including: the wind down of QE3 (October 2014), an expected increase in the Federal Funds rate (June 2015), a likely increase in wage pressures should the unemployment rate near 5.5% and a reduction in dealer inventories which could increase volatility going forward. At this point in time, we remain cautious on the asset class as the margin of safety (i.e., yield levels, spreads) remains very thin across all sectors of the fixed income market.

Practice Group Spotlight on Family Business Owners
By Andrew R. Connors, CFP®, CEPA
Partner & Business Owner Practice Group Leader

Did you know that the nearly 5.5 million family businesses in the U.S. contribute to over half of the country's GNP? Check out our thought paper to learn more about the challenges and opportunities of family businesses today.

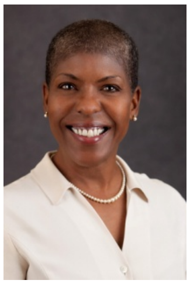
Interested in learning more? Email us for more information about our upcoming educational event – *Aligning Family Business Values with Business Value* on October 7th – in partnership with the Cleveland Foundation.

Meet David Bosak, Gwen Rosenthal-Martin & Tia D'Aveta
This summer, we welcomed three new team members to Fairport.



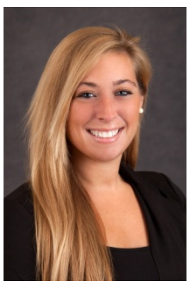
David Bosak's 10+ years of industry experience, risk management and trust administration background made him an ideal candidate for Fairport Client Service Manager. David joins Pamela Dagostino and Kristen Lucas in their continued efforts to maintain the highest level of service and satisfaction for Fairport's high net worth clients.

Prior to joining the firm, David worked at KeyBank as Trust Officer, Investment Operations Specialist and Internal Auditor. Fairport clients will certainly benefit from his deep expertise in fiduciary, investment, tax and other related wealth issues.



Gwen Rosenthal-Martin brings nearly 20 years of client service and administrative experience to Fairport. As Administrative Assistant/Operations Coordinator, Gwen splits her time between receptionist responsibilities and operational duties including account and investment policy maintenance.

A familiar (and friendly) face to the firm, she previously worked in our 3636 Euclid office building as Office Manager/Receptionist at City Architecture, Inc.

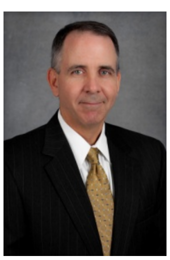


As Administrative Assistant/Client Service Coordinator, Tia D'Aveta shares receptionist responsibilities and provides administrative support to Fairport's client service teams including client on-boarding, in-house meetings, daily deposits and requests and marketing support.

Tia graduated this spring from Notre Dame College with a B.A. in Business Administration. Her college education was 100% self-financed with multiple customer-service related jobs.

Visit our website to learn more about David, Gwen and Tia.

Fairport News
Fairport believes in supporting the community as a company and through encouraging employees to participate and hold leadership positions in professional, charitable and community organizations. Read about our new designations, recent accolades and community involvement.



We are pleased to announce that **Ken Coleman** was selected as a member of Leadership Cleveland, Class of 2015. Leadership Cleveland is a 10-month program of leadership development, civic education and civic engagement for leaders. It offers participants in-depth opportunities for exploring the rich diversity of Northeast Ohio and the opportunities and challenges the region faces. Participants represent a diverse group of recognized and established leaders from across a wide variety of organizations representing the private, nonprofit, and government sectors. Well-deserved congratulations to Ken on his inclusion in this prestigious group!

Antonio Belmonte passed Level II of the CFA exam and is one step closer to achieving the Chartered Financial Analyst® designation. The CFA Program is a globally recognized, graduate level curriculum that provides professionals with a strong foundation of the real-world investment analysis and portfolio management skills needed in today's investment industry. It also emphasizes the highest ethical and professional standards. The Program is organized into three levels, each culminating in a six-hour exam. Please join us in congratulating Antonio on a well-deserved accomplishment.

Emily Drake was appointed to the St. Luke's Foundation Board. St. Luke's Foundation reinvests its resources to provide leadership and support for the improvement and transformation of the health and well-being of individuals, families and communities of Greater Cleveland.

Paul Zappala was featured on a WKYC-TV segment on the success of Midtown Cleveland's safety and security initiatives. You can view the video here.

Fairport Continuing Education

Fairport employees frequently attend conferences, continuing education seminars and informational webinars to keep up-to-date with new strategies and industry trends relating to the wealth management needs of our clients. From investment management to client service to technology, read more about the conferences we've recently attended.

This summer **Rick D'Amico** attended the Morningstar Investor Conference in Chicago and the Innovative Alternative Investment Strategies Conference in Denver.

Heather Ettinger participated on "A Journey to Success" panel at a women's forum sponsored by *Investment News* in NYC. The forum was focused on mentoring and advancing women's issues in the financial services industry. Locally, she participated on a panel with a similar theme at an Oswald Companies event in Cleveland. That panel discussion was titled "The Growing Influence of Women in Business." Additionally, Heather attended Schwab Explore and hosted her national study group, Family Wealth Advisors Council, in beautiful Cleveland.

John Silvis attended the Westfield Investment Forum in June.

Paul Zappala attended Schwab Solutions 2014 in Columbus in July.

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.