FAIRPORT
ASSET MANAGEMENT
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The Compass

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

November 2015

Happy Holidays! During this season of thanksgiving, we would like to express our gratitude to Fairport's clients and friends. Whether you are a long-time client or you have started working with us this year, it is 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 Commentary as of November 20, 2015

By John M. Silvis, CFA
Chief Investment Officer

The global equity markets continue to rebound off the lows experienced back in August with the S&P 500 Index rising 10.52% from the low while the global benchmark, the MSCI All World Index, climbed 7.74%. As we wind down the year, both benchmarks are close to where we started 2015 with the S&P 500 Index notching a total return of 2.99% so far, slightly ahead of the MSCI ACWI Index which has struggled in 2015 returning 0.52%.

The economic picture continues to show incremental signs of improvement as we coast into the end of 2015. The Unemployment rate has declined to 5.0%, a level that historically would suggest that the economy is at or near full employment. Weekly unemployment claims, another measure of the health of the job market, remain near 40 year lows indicating the employment picture is looking good as we head into the New Year. Wages, as defined by the monthly average hourly earnings release, may finally be showing signs of accelerating with the most recent reading in November showing 2.5% growth year-over-year. While that seems less than exciting, keep in mind wages have been stagnant for the last several years.

Third quarter Gross Domestic Product (GDP) slowed to a growth rate of 1.5% as hope of a second half acceleration proves elusive yet again. Fourth quarter, as well as all of 2015, should fall back into the familiar range of 2.0%-2.5% growth that we have seen for the past several years. The Federal Reserve, on the heels of better recent economic data, seems poised to finally raise short term interest rates at its December meeting. Recent comments by Fed Chair Yellen seem to indicate, and backed up by the move in the capital markets, that the positive payroll numbers for October (we will get the November non-farm payroll in early December as well) have tipped the scale in favor of higher rates. Time will tell, as it seems like we have seen this movie before.

Overseas, the Japanese economy continues to struggle to find firm ground as the most recent GDP reading indicated that their economy is officially in recession territory once again. This is the second recession since 2012 under Prime Minister Abe who continues to push forward with more stimulus measures aimed at jumpstarting the economy. Corporations in Japan so far have not invested sufficiently in plants and equipment, muting the simulative effects of the Bank of Japan. The other problem plaguing the Japanese economy is China's economic slowdown with less demand for industrial equipment and construction machinery.

As we shift our focus across the pond, the European Central Bank (ECB) continues down the path of accommodative monetary policy. It is likely the ECB will expand their quantitative easing program in the coming weeks by either increasing the amount of stimulus they inject into the economy on a monthly basis or extending the time frame (currently set to expire in September of 2016) of the program. Some economists believe, to show his resolve, ECB President Draghi may do both which could provide a boost to both the economy and the equity markets in Europe in 2016. While we acknowledge the struggles, we believe that global growth is set to increase in the coming months, led by the combination of low global short rates and the net increasing in monetary stimulus. This should give way to rising Global Purchasing

Managers Index (PMI) readings. There has been a strong correlation to rising Global PMI numbers and global equity markets.

Emerging markets have struggled for most of the year, with the MSCI Emerging Markets Index down -10.33% year-to-date. China continues to come to grips with the ramifications of a slowing economy and has shifted from "economic reform to economic rescue" as noted by Donald Straszheim, head of Evercore ISI China Research team. The central bank has cut interest rates several times over the last few months and the leadership is shifting its focus towards fiscal stimulus to combat slowing consumer demand. Brazil has entered into a severe recession with the fear of political unrest rising in the largest Latin American country. Low commodity prices and rising inflation has crippled the economy in Brazil as it gets ready to take the world stage, hosting the 2016 Summer Olympics. We remain cautious on emerging markets as we look for signs of better economic growth.

As we shift our focus to the domestic markets, Large Caps remain the dominant asset class outpacing both Mid and Small Caps for the year. However, seasonality should favor the Small Caps as we head into the final stretch of 2015. Within the S&P 500 Index, leadership remains with both the Technology and the Consumer Discretionary sectors having outpaced the benchmark consistently for the year aided by low inflation and improving consumer confidence. Healthcare, which has been a leader for several years, has come under pressure since the market bottomed in August and is at risk of losing its leadership status. The sector has been under the spotlight recently as the political environment heads up and drug pricing has become a hot topic. Energy, Utilities and Materials remain the laggards so far this year. We could see a rotation in the coming months if more evidence emerges pointing to better global growth in months ahead.

Fixed Income Commentary as of November 20, 2015
By Rick D'Amico, CFA
Manager of Investments

According to Bloomberg, the fed fund futures market is currently pricing in a 68.0% probability that the Fed moves in December, up sharply from the 33.0% probability implied at the end of last month. After a strong October employment report, the hurdle appears high for the Fed not to raise the fed funds target rate at its December 16th meeting. Financial conditions, as measured by the Bloomberg Financial Conditions Index, appear to have stabilized and are now firmly in positive territory. In addition, wage pressures, as indicated by average hourly earnings growth, recently broke out to the upside. Headline inflation remains stubbornly low, however it could eventually tick higher should the global growth outlook improve and commodity prices stabilize. It is important to note that inflation is a lagging indicator and monetary policy often works with a significant lag. If the Fed continues to delay liftoff, they risk the chance of falling behind the curve and having to tighten faster down the road. This is a situation the Fed would like to avoid. Given the economy's lower potential GDP growth, tightening at a faster pace amplifies the risk of doing real damage to the underlying economy. One scenario that could force the Fed not to tighten at its next meeting is an exaggerated move in global markets between now and December 16th. Under this scenario, if the Fed believes raising interest rates would cause a severe global dislocation, they will most certainly refrain.

Fixed income returns for 2015 have been modest, as the Barclays U.S. Aggregate Index has returned 0.77% year-to-date. Yield curve positioning and sector allocations will continue to be a key driver of returns given the fairly large dispersion among both sectors and maturity ranges.

Note to Clients: Year-End Service Requests
We always work to process your service requests in a timely fashion and want to take every measure to ensure your satisfaction during this busy stretch of the year. This is a friendly reminder that our custodians (Charles Schwab, Fidelity and banks) have strict deadlines for year-end service requests including charitable gifts, retirement plan contributions, establishing new accounts and required distributions.

We encourage you to contact your Client Service Manager now to inquire about applicable deadlines and begin the process of charitable gifting, required minimum distributions and any other time-sensitive service requests. Thanks!

Practice Group Spotlight – Partnerships & Presentations

  

Our practice groups (Executives, Family Business Owners and Women) had a busy fall chock full of educational programming and successful collaborations.

Fairport Partner **Emily Shacklett** teamed up with Gerald Chattman of Buckingham, Doolittle & Burroughs, LLC to present on the topic of negotiating executive compensation and benefits. The round table discussion covered a laundry list of potential items for executives to negotiate with their employers, as well as advice on avoiding related tax and financial mistakes.

Fairport Partner **Andrew Connors** and Terri Eason of The Cleveland Foundation hosted an intimate luncheon for local family business owners with *New York Times* best-selling author Thomas William Deans Ph.D. As we had hoped, Tom's contrarian perspective on family business succession challenged attendees in a positive way. We were told that his presentation sparked many subsequent meaningful family discussions (and at least one on the car ride home!).

Fairport Managing Partner **Heather Ettinger** and Marie Dzanis of FlexShares ETFs and Northern Trust were guest presenters at a recent CFA Society Cleveland luncheon. They joined forces once again to present "SHE-Change: The Seismic Shift of Women's Roles in the Family, Business and Society and Its Impact on the Financial Services Industry" to a full room of local financial professionals.

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 proud to announce that *Investment News* has named Fairport Managing Partner **Heather Ettinger** on its inaugural "Women to Watch" list.

Heather and 19 other prestigious professionals were selected from over 400 nominations from across the country! The honorees are leaders at their firms, have demonstrated a willingness to share their experiences with others and have given back to the industry. Heather and the other distinguished women will be recognized at an awards ceremony in March in New York City.

Read more here: http://www.investmentnews.com/section/women-to-watch/2015/profile/2/Heather-Ettinger

Director of Wealth Advisory Services **Janet Havener** wrote an article for the special estate planning section of the November 9-15th edition of *Crain's Cleveland Business*. In "Building Family Legacies Through Philanthropy," Jan emphasizes the importance of engaging the next gen in charitable giving and discusses an example where the Cleveland Hearing & Speech Center was the charity of choice for a family foundation. You can access a longer version of her article here: http://fairportasset.com/2014/12/compass-2014-december/#legacies

Fairport was recognized with an *Investment News* 2015 Best Practices award for compensation and staffing. *Investment News* selected 24 firms that have gone above and beyond in growth and financial performance this year. Two *Investment News* research studies, the Adviser Compensation & Staffing Study and the Adviser Technology Study, highlighted the ways in which firms have punched through the ceiling with the most advantageous use of staff members and technology strategies. Associate publisher Mark Bruno said these firms should be considered leaders and role models for fellow industry members.

Fairport Continuing Education

Fairport employees frequently participate in 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.

Partner **Chris Isabella** attended Select Strategies for Insurance & Estate Planning hosted by Cavitch Familo & Durkin Co., L.P.A. in October.

In September, Marketing Manager **Kristen Lucas** attended Content Marketing World at the Cleveland Convention Center. She joined 3,500 energetic marketers from 55 countries for sessions covering content strategy, integration and measurement.

Fairport Chief Investment Officer and CFA Society Cleveland Vice-President **John Silvis** travelled to Hong Kong for the Annual CFA Institute Society Leadership Conference in October.

For the third time in three years, CFA Society Cleveland won a CFA Institute award. Tom Jalics, CFA Society Cleveland President, and John are pictured (center) accepting the CFA Research Foundation Award on behalf of the Cleveland chapter at the conference.

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.