FAIRPORT ASSET MANAGEMENT
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The Compass

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

May 2015
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 May 21, 2015
By John M. Silvis, CFA
Chief Investment Officer

As we recently passed the half way point for the second quarter of 2015, equity markets around the globe continue to grind higher with the S&P 500 Index closing at a new high of 2,122, notching a year-to-date return of 3.89% through May 15th. In what has been a reversal of last year's trend where domestic equity markets lead the way, this year international markets are leading the charge. The MSCI All Country World Index, a widely used global equity benchmark, has recorded a gain of 7.18% since the beginning of the year. The emerging markets have also outperformed the domestic markets this year with a return of 9.73% at the midway point of the quarter. Diversification, while stumbling last year, has again rewarded patient investors and should continue to show benefits as we head towards the midpoint of 2015.

The U.S. economy fell into a familiar pattern with the first quarter Gross Domestic Product (GDP) growing at an anemic rate of 0.2% on an annualized basis (that number will likely be revised lower in the coming days). According to macro research firm Evercore ISI, over the last ten years first quarter GDP growth has averaged approximately 0%, which is a decline of 2% from the fourth quarter. The good news is that it has also shown a pattern of bouncing back in the second quarter by an equal amount of 2%, so all may not be lost. That being said, some of the most recent economic releases have been on the softer side with the manufacturing index declining three out of the last four months. Employment has also shown signs of softening over the last few months but overall remains steady with unemployment declining to 5.4% (near full employment) while the economy has created close to 3 million job over the past year. Economists remain hopeful that we will see a bounce in the second quarter with the consensus surveyed by Bloomberg predicting an average growth rate of 2.7%. As we predicted earlier in the year, inflation (or should we say deflation) remains well contained with the Consumer Price Index (CPI) falling over the last twelve months. On the positive side, weekly unemployment claims which tend to be a good barometer of the current economic conditions have declined to 15 year lows on better prospects.

All eyes will be on the Federal Reserve in the coming months as monetary policy takes center stage. Over the past few months, it is becoming more of an art than a science to try to predict the timing of interest rate increases. With inflation virtually non-existent, the consensus for the first federal funds rate increase by the Fed recently shifted, moving from June to September. With some economic numbers coming in on the softer side, many "Fed Watchers" have begun to hedge their bets. Cornerstone Macro Research, a leading economic research firm, continues to believe the Fed will raise rates at the September meeting setting the path for rate increases into 2016. Higher wages, led by recent increases in the average hourly earnings index, could give some credence to the Fed in the coming months. Either way, volatility has always increased during transitions in monetary policy and we see no reason for it to be different this time.

As we near the sixth year of the current economic expansion, earnings came under pressure due to a maturing economy and rising strength in the U.S. dollar. Forecasts from ThomsonRueters had predicted a contraction in year over year earnings of approximately 6%. As we close the books on the first quarter, earnings are likely to increase a positive 2%. The direction of earnings for the rest of the year will be key in determining the direction of the equity markets. While the dollar has gotten most of its attention in recent months, history would indicate that a rising dollar is not a detriment to further gains in the stock market. In periods when the dollar has risen over 10% (like in 2014), the S&P 500 Index has seen an average return of roughly 15% in the following year (2015). While we ultimately see the dollar rising over the longer term, we could be in a period of consolidation over the next few months. Energy continues to underperform the benchmark so far this year while trading well above the sectors historical price-to-earnings ratio. We remain underweight the sector as oil prices remain volatile. Should global economic growth pick up in the coming months, we see a rotation back into the cyclical sectors, such as technology and industrials that would benefit from increased global demand. After being one of the better performing sectors last year, utilities are again underperforming the broader market justifying our underweight to the group. Small caps have already matched last year's return of 4% with more than half the year left. We believe small caps are poised to outperform their large cap counterparts in 2015 as consumer spending picks up and inflation remains low for the remainder of the year.

Over the last few years we have been cautious on European equities and as such have been underweight the region as it relates to our benchmark, the MSCI All Country World Index. While we remain cautious, we do see positive developments over the last few months that have led us to start moving back to our target weight within the region. The economy in the Eurozone, those countries using the common currency, grew 0.4% in the first quarter and has shown recent signs that growth has been improving in the second quarter. A weaker Euro has helped the region by making their exports more competitive on a global scale. In March, after much anticipation, the European Central Bank (ECB) rolled out their version of quantitative easing by committing to purchase at least $70 billion a month in bonds through September of 2016. So far the program has been received positively by the capital markets and has helped lead the equity markets in Europe to outperform year-to-date.

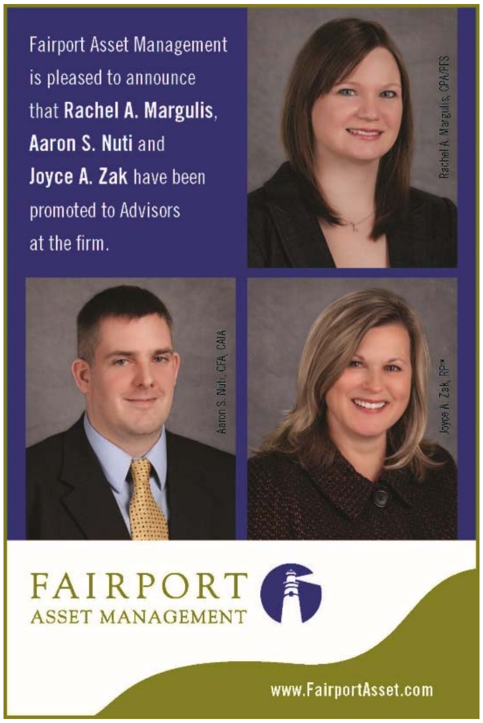
On the other side of the world, China's economy struggles to keep pace with its desired GDP growth rate set forth by the ruling government. China grew at its slowest pace in six years with growth at 7%. Many signs, such as lower electricity consumption, point to slower growth for the rest of 2015. The equity markets in China however have not been affected by the threat of slower growth with the Shanghai Composite Index up over 35% since the beginning of the year. The Russian capital markets have also gotten off to a fast start this year due in large part to a bounce back in oil prices and a steadier exchange rate for the ruble. However, like China, the economy of Russia continues to struggle and most likely will fall into a prolonged recession. Longer term growth prospects in the emerging markets remains a concern and warrants caution over the short term.

As we look out over the coming months, we have several headwinds (pending Fed action, earnings volatility, currency fluctuations, etc.) that could cause some choppiness in the short term. However, the longer term fundamentals of the equity markets and solid, albeit slow growth of the economy remain in check. As we put more time and distance between ourselves and the market correction back in 2008, we are always cognizant of the role capital gains play within our management of portfolios and the overall return of characteristics.

Fixed Income Commentary as of May 21, 2015
By Rick D'Amico, CFA
Manager of Investments

All eyes remain on the Federal Open Market Committee (FOMC) as we move closer to the eventual lift-off date for the federal funds rate. According to Cornerstone Macro, Wednesday's FOMC minutes suggest that September remains the base case scenario. However, continued weakness in second quarter economic data increases the odds that lift-off could be postponed beyond September. As of now, there is not much evidence to suggest that the economy is experiencing the much anticipated growth bounce in the second quarter. According to the Atlanta Fed, second quarter growth is currently tracking just 0.7%. As Chair Janet Yellen has stressed in the past, the decision to increase rates is data dependent and it appears as though they have adopted a meeting-to-meeting approach as opposed to signaling anything in advance. Given this approach, fixed income investors should prepare for increased volatility ahead, especially around FOMC communications and the closer we get to the actual lift-off.

Since mid-April, 10-year Treasury yields have risen sharply, climbing from 1.89% to 2.25%. This coincides with a sharp rise in German yields, which jumped from .07% to .64% over the same period on the back of an improving economic outlook in Europe. For the time being, 10-year Treasury yields appear to have stalled, bumping up against resistance at 2.25% in an overbought condition. Given the recent backup in rates, the Barclays U.S. Aggregate has given back some return and is now up just .34% year-to-date. Going forward, our expectations for fixed income markets call for muted returns along with increased volatility. We remain underweight duration and overweight credit in Fairport's fixed income portfolios. Additionally, municipal bonds appear attractive across maturities for investors in the 25% or higher tax bracket.



Fairport Consultants Promoted to Advisors

We are pleased to announce that Rachel Margulis, Aaron Nuti and Joyce Zak have been promoted to the position of Advisor.

Over the years, they have proven to be excellent problem solvers and trusted client advocates. Rachel, Aaron and Joyce have skillfully responded to the changing nuances and complexities of serving Fairport's high net worth clients.

Since joining the firm, they have each achieved additional professional designations in their areas of expertise affording Fairport clients the benefit of their adept and diverse skill sets.

Please join us in congratulating Rachel, Aaron and Joyce!

Family Business Forum

Fairport is a proud sponsor of the *Crain's* Family Business Forum on June 16th. The event will convene more than 200 Northeast Ohio business owners to discuss the unique challenges they face. The Forum will educate, inform and create dialogue for participants to talk about opportunities and how best to navigate them as they affect the family, non-family employees and ultimately the bottom line. Fairport Partner and Family Business Owner Practice Group Leader Andrew Connors will discuss generational leadership as a breakout session panelist.

For more information click here: http://www.crainscleveland.com/event/crains/3261406/crains-family-business-forum. As a sponsor, we have a handful of complimentary tickets to offer to clients on a first come, first served basis. Please contact Kristen Lucas at (216) 431-3447 for tickets.

Community Beacon

Fairport recently announced the Rock and Roll Hall of Fame and Museum as the firm's 2015 Community Beacon recipient. Desiring to unify our efforts as a firm to provide meaningful support to the Northeast Ohio community, Fairport selects one charitable organization per year that reflects our firm's values. Celebrating its 20th anniversary year, the Museum continues to use rock and roll music to educate and connect diverse people of all ages.

ROCK AND ROLL
HALL OF FAME + MUSEUM

The Rock and Roll Hall of Fame and Museum's mission is to engage, teach and inspire through the power of rock and roll. The institution carries out its mission by giving voice to the stories of the people, artifacts and events that shaped rock and roll — through Museum exhibits, materials in the Museum's Library and Archives, traveling exhibitions, and a wide array of innovative educational and activities.

It preserves Cleveland's place as the first city of rock, attracting over 450,000 visitors and bringing over $110 million into the regional economy each year. Since 1995, the Rock Hall and Museum has collected more than $8 million in admission taxes that have gone directly to support the Cleveland Metropolitan School District.

Fairport's collaboration with the Museum will include support of educational programs, co-branded events and volunteer opportunities. We look forward to raising awareness by sponsoring unique, music-centric activities for Fairport clients, friends and employees throughout the year.

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.

Rick D'Amico attended Investing in Liquid Alternatives in New York City in April. The conference was highlighted by a speaking faculty consisting entirely of accomplished fund managers and portfolio professionals from across the spectrum of liquid alternatives.

Pete DeVito and **Tom Seifert** attended the Cavitch Familo & Durkin Co., LPA Insurance and Estate Planning Strategies continuing education program.

Emily Drake and **John Silvis** attended the Commonfund Forum in Florida in March. The program is a three-day intensive series of plenary sessions and breakout meetings focused exclusively on key issues of investment policy, strategy, risk management and governance.

Heather Ettinger and the newly named Fairport Advisors **Rachel Margulis**, **Aaron Nuti** and **Joyce Zak** attended the *Investment News* Retirement Income Summit in Chicago. Leaders from the worlds of investing, government and academia shared with advisers the latest thinking in retirement policy, behavioral finance, portfolio theory, demographics, insurance, Social Security, estate planning and taxation.

Heather Ettinger, **Rachel Margulis** and **Joyce Zak** (pictured to the left) attended the *Investment News* Women Advisor Summit in Chicago. The summit, held in three cities, is a one-day workshop uniquely designed for the sophisticated female adviser who wants to take her personal and professional self to the next level. Heather was a featured speaker and presented "The Breadwinner Woman: The Growing Market for Advice."

Additionally, **Heather Ettinger** presented at the EY Advisory Women's Leadership Forum on Financial Fitness for Breadwinner Women in April and participated on a panel at the First Tee Girls Leadership Academy in May.

John Silvis attended the BlackRock RIA Investment Forum in New York City in May. The forum's goal was to foster idea sharing between registered investment advisors and provide the resources and expertise to complement their investment practices. John heard from BlackRock's top investment minds, including keynote speaker Mark Wiedman, Global Head of iShares.

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 recent accolades, new designations and community involvement.

Investment News recently recognized **Fairport Asset Management** as the 8th fee-only registered investment advisory firm in Ohio and 150th in the nation as measured by assets under management. *Crain's Cleveland Business*, listed Fairport as one of the top 10 Largest Investment Advisers in Cleveland. The list published in the May 18th issue was ranked by assets under management locally.

Rachel Margulis was awarded the Personal Financial Specialist (PFS) credential through the American Institute of Certified Public Accountants (AICPA). The PFS credential recognizes one's knowledge in helping individuals plan all aspects of their wealth, including estate planning, retirement planning, investments and insurance. The requirements include being active member of the AICPA, minimum three years of financial planning experience, meeting all of the requirements as a CPA, along with recommendations and passing a written exam. Way to go, Rachel!

John Silvis was nominated to be Vice President of the CFA Society Cleveland for the upcoming year.

Fairport joined the Honorary Race Chairs, the **Seifert Family (**Tom, Tracy, Drew, Kenny & Moondog pictured below), as a sponsor of the Fleet Feet 5K for Beech Brook on Mother's Day. The weather held out for a fun day and a successful fundraiser!

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.