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

February 17, 2012

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

During the first month of 2012 the equity markets, represented by the S&P 500 Index, have continued their climb off of the lows set in early October of last year rising over 20% during the time period. For the month of January, the S&P 500 returned a total of 4.5% setting the stage for what should be a better year in the equity markets. According to Ned Davis Research, prior to last month's rise, there has been 17 times when January had gains of 4% or more since 1950. Over the following February through December period, the market has advanced 16 times with a median return of approximately 15% (the only exception was 1987).

We believe that the U.S. economy will continue to expand in 2012 as fear of another recession fades in the rearview mirror. The most recent print had the U.S. Gross Domestic Product (GDP) expanding 2.8% in the final quarter of 2011. It's hard to pinpoint a catalyst for economic growth to meaningfully accelerate in 2012 and will more likely grind along during the year. The most recent Bloomberg survey of economists has the consensus GDP growth rate at 2.2% for the current year. If there is a risk, we would lean towards the upside as economic data such as weekly unemployment claims, productivity and company surveys have all come in stronger in recent weeks.

From the perspective of technical analysis, the S&P 500 Index recently formed a "golden cross" (the 50 day moving average crossing above the 200 day moving average). This has generally been a positive event for the equity markets and has indicated higher markets in the future. RenMac Research published average returns after a golden cross was formed. Returns are positive one year later 74% of the time with the median return of 12.1%. That's better than all periods which are positive 67% and return 6.7%. We wouldn't give it too much credence in and of itself, but combined with favorable fundamentals it does fit into our positive thesis for the markets.

On another note, we have now gone over 54 days without a correction of 5% or more. According to Ned Davis Research, the average is 49 days. This, coupled with the fact that February has tended to be one of the poorer months, leads us to believe that a pullback could be coming in the next few weeks. We would view this as an opportunity to add to positions.

Fairport Global Asset Allocation

Globally, the economy should pick up steam as the year progresses aided by the Emerging Markets. It appears more likely that China will execute another "soft landing" and inflation will ease going into the second half of the year. Globally, along with the Fed's announcement to keep rates low until the end of 2014, central banks have embarked on a synchronized global easing cycle which should benefit markets around the globe. ISI Group, an independent research firm, has identified over 90 stimulative policy initiatives announced in the last 5 months. Consumer demand in the Emerging Markets continues to gain steam and will remain a long term story (the recent riot in China over the new iPhone is a good example) with over half of the world's nominal global consumption coming from that group.

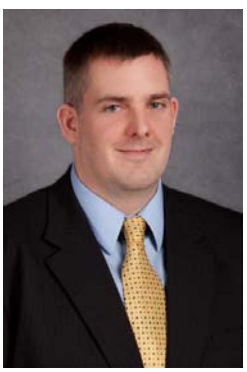
Europe remains the headline risk as we look forward. The economy in Europe, especially in the peripheral countries, has likely fallen into a recession as the effects of austerity take hold. The recent steps to hold off the contagion seem to be working as the markets have been flooded with liquidity from the ECB. Structural reforms remain elusive, but it does seem like progress is slowly being made. It's likely that they will shift the focus towards growing the economy in the months ahead. We remain underweight mainland Europe and look for a better point to possibly add funds later in the year.

Fairport Large Cap

With 85% of the S&P 500 companies already reporting fourth quarter earnings, over 65% of those companies have beaten their earnings estimates while over 42% have exceeded revenue forecasts. Earnings growth should slow going forward as the bar will be set higher in the coming quarters, but it's our belief that earnings for the S&P 500 will exceed $100 in 2012, making the market attractive on a fundamental basis. We continue to overweight Technology and Industrial sectors, leveraging a positive growth environment. We are underweight Utilities, the best performing sector in 2011, believing investors will look for better return opportunities going forward. As fears of an economic pullback fade, more companies will look to either deploy, in the form of acquisitions, or return their cash hordes to investors.

Fixed Income Commentary

Despite an improving economy and the recent rally in the equity markets, Treasury yields remain stubbornly low. The 10-year Treasury is trading below 2.0%, some 60 basis points below fair value according to Ned Davis Research. A major factor contributing to this low yield environment is the Fed's pledge to keep rates low through 2014. In addition, there continues to be a dearth of supply in the fixed income sector. Treasury supply in the first quarter is projected to be $97 billion less than originally forecast. Given the limited supply and political uncertainties that lie ahead, interest rates are likely to remain constrained in the first half of the year. As the economy continues to gain traction, investors will likely begin to reach for yield. This should prove favorable for spread product. As such, we remain tactically overweight investment grade and high yield corporate debt in our fixed income models.



Welcome Aaron Nuti

Please help us welcome Aaron Nuti to Fairport!

Aaron recently joined us in January in the role of Consultant on Fairport's client service teams. Aaron most recently worked as portfolio manager at Key Private Bank and is a CFA Level III Candidate. His strong investment experience and knowledge will be of great benefit to our clients and further strengthens Fairport's core expertise in investment management.

See our website for more info about Aaron.

Client Question

Each quarter, one of our professionals will answer questions asked by a Fairport client(s).
By Peter P. DeVito, CPA, CFP®
Vice President & Advisor

"What new tax provisions take effect in 2012?"

Another way to ask the question is what provisions have expired and what have been extended.

Payroll tax cut: Just yesterday, House and Senate negotiators finalized a deal to extend the payroll tax cut at the 4.2% rate, which was set to expire at the end of February and revert to the usual 6.2%. The agreement marks a major election-year victory for President Obama, who made extending the two-percentage point reduction in the payroll tax through 2012 a top priority.

AMT Exemption: The alternative minimum tax or "AMT patch" amounts expire in 2012 and the AMT exemption reverts to its statutory amount: $45,000 for married individuals filing jointly, and $33,750 for unmarried individuals.

Tax Rates: The 10%, 15%, 25%, 28%, 33% and 35% tax brackets were scheduled to sunset after 2010 so that in 2011 the 10% rate would disappear (with income in that bracket reverting to the 15% bracket) and the other rates would revert to 28%, 31%, 36% and 39.6%, respectively. These rates are scheduled to continue through 2012.

Capital Gains: In 2003, the capital gain tax rate was lowered to 15% (0% for taxpayers in the 10% and 15% ordinary income tax brackets). These rate changes also had been scheduled to expire after 2010 and will continue through 2012.

See our website for a complete overview of 2012 tax provisions.

"How much can I contribute this year to my retirement plan?"
The 2012 contribution limit on a traditional IRA, Roth or Spousal IRA is $5,000 with a catch up limit of an additional $1,000 if you are age 50 or older by the end of the year.

See our website for an outline of the limits on all types of retirement plans.

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

Peter Devito attended the Ohio Society of CPAs Year-End Tax Update in December.

Heather Ettinger will be one of the speakers at the Female Entrepreneur Summit on April 25th. The event presented by CBC Magazine and Ursuline College aims to be a day of learning, networking and inspiration for female entrepreneurs. The keynote speaker is Arianna Huffington. Click here (cbcmagazine.com/FES/2012) for more info or to register.

Heather Ettinger attended the Global Diversity Leadership Exchange in New York City covering the business value of diversity and inclusion and the role of leadership in driving results.

J.T. Mullen is coordinating a series of seminars on Not-for-Profit financial management at Lakeland Community College in the spring. The first session will address the fiduciary and financial responsibilities of nonprofit boards and senior management. The second session is designed to enable non-financial executives and trustees to understand the process and deliverables of an audit. Please contact J.T. for more info on these seminars.

Emily Shacklett has been newly certified as an Accredited Estate Planner® (AEP®) by the National Association of Estate Planners & Councils. The Accredited Estate Planner® designation is a graduate level specialization in estate planning, obtained in addition to already recognized professional credentials within the various disciplines of estate planning. It is awarded by the National Association of Estate Planners & Councils (NAEPC) to recognize estate planning professionals who meet stringent requirements of experience, knowledge, education, professional reputation, and character. Congratulations Emily!

John Silvis attended the Inside ETFs Conference in January. The event drew more than 1250 attendees which also included all the major ETF issuers and index providers as well as leading ETF analysts, a large number of national media and 2 days of coverage by CNBC.

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.