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

The equity markets continued their torrid pace set over the last 15 months on their way to setting new highs with the S&P 500 Index returning over 5% so far during the second quarter of 2013. The MSCI ACWI Index, a global representation of the equity markets, returned over 4% so far this quarter. This is on top of impressive gains from the first three months of the year. So far for the year, the S&P 500 Index has registered a total return of 16.7% and the MSCI ACWI Index has gained 10.8% year-to-date.

The domestic economy continues to show signs of improvement during this quarter. Initial unemployment claims, which are reported weekly, continue to decline, indicating an improving employment environment. Consumer confidence, as measured by the University of Michigan survey, has risen to its highest market in over five years (dating back before the recession) driven by better stock market returns and an improving housing market. Existing home prices rose 1.7% in April and over 11% year over year, which is another indication that the housing market has finally hit a bottom. Inflation remains in check with the Consumer Price Index averaging 1.7% in the first quarter of the year. Economists remain skeptical, as measured by the Bloomberg Economic Survey, with most seeing the economy growing at 2.0% for 2013. It is possible that the economy will continue to improve and economists will revise up their forecasts as better data is reported.

With the economy slowly improving and better deficit projections coming out of Washington (the Congressional Budget Office or CBO revised the fiscal deficit down to $642 billion from a previous estimate of $845 billion) the focus has turned to when the Federal Reserve may slow down or "taper" their bond purchases, or Quantitative Easing (QE), in light of better economic data. While the Fed and Chairman Bernanke are committed to keeping monetary policy accommodative, there is a possibility that they could start to slow the purchase of bonds in the second half of the year.

Fairport Global Asset Allocation

Globally, central banks are joining the chorus with several moving to lower interest rates in the past few weeks. Among them were Australia, South Korea, India, Israel and the European Central Bank. Japan, which has tried several attempts to stimulate their economy over the years, has entered into an aggressive round of quantitative easing on a larger scale than the one the Federal Reserve adopted. This has driven the equity markets in Japan sharply higher (and the Yen lower) over the last few months, giving hope that this time may be different. We have taken a "wait and see" approach to the equity markets in Japan, but may add to positions if the economic data continues to improve.

European financial markets have started to rebound this year as ECB President Draghi remains committed to stabilizing the capital markets in Europe while the governments struggle to juggle austerity and economic growth. Focus will shift to elections in Germany later this year as most expect Chancellor Merkel to get reelected. It is likely that the Eurozone will remain in a recession for the remainder of 2013.

Fairport Large Cap

The second quarter most likely led us into another rotation into “risk-on” assets as both the Utility and the Staple sectors have underperformed, while sectors like Discretionary and Industrials have been leaders since the end of March. If history of the last few years is a good guide, we should see this rotation last into the third quarter defying the “sell in May” mantra.

The S&P 500 Index broke out of a 13 year trading range to move to new highs during the month (the Russell 2000 Index, a small cap benchmark, also hit an all-time high in May). Investors remain skeptical of the equity markets and many continue to pour money into bonds. Valuations, while not as attractive as they were last year, remain reasonable trading at 15x forward earnings. Couple this with a low inflationary environment and it is reasonable to believe that there is potential for further upside in the current equity markets. Corrections could and probably will occur along the way, but that is to be expected. It begs the questions, are we entering into a new bull market?

Fixed Income Commentary

While cash flows into bond mutual funds remain strong (outpacing equity fund flows year-to-date $97B to $74B), most fixed income sectors continue to post anemic returns in this low yield environment. Year-to-date, the Barclays U.S. Aggregate Bond Index has returned a negative .26%. With most government sectors slightly down, the investment grade corporate sector has managed to squeak out a positive return of .28% thus far. The yield-to-worst for the Barclays U.S. Aggregate Bond Index is currently 1.97% and our expectations are for coupon-like returns in this neighborhood going forward. While our return expectations for fixed income remain muted, we are in the camp that we are more likely to see a slow erosion in value as opposed to the bubble type scenario. For us to change our outlook and become more negative, we would need to see the following scenarios start to unfold: (1) higher inflation or inflation expectations, (2) an increase in total bond market supply and (3) weaker demand.

Given the current environment, we remain underweight duration while overweight the credit sensitive sectors of the fixed income market. We currently favor investment grade corporates in the 3 to 7 year maturity range, as this segment offers more favorable return prospects due to the steepness of the yield curve. We are becoming less constructive on high-yield bonds, as yields in the sector continue to grind lower. U.S. high-yield bonds printed a record low rate of 5.03% earlier this month. While credit fundamentals within high-yield are still solid relative to historical averages, the sector is becoming more stretched, as investors continue to move down the credit spectrum in search of higher returns.

Community Beacon – Jewish Federation of Cleveland

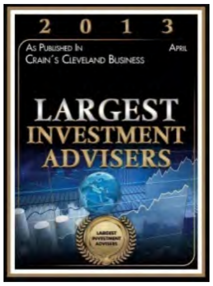
Desiring to unify our efforts as a firm to provide meaningful support to the Northeast Ohio community, Fairport selects one charitable organization per year that reflects our firm's values. The **Jewish Federation of Cleveland** is our 2013 Community Beacon recipient.

We are partnering with the Federation’s Women's Philanthropy Initiative (WPI) as gold sponsor of the annual spring luncheon this week. The luncheon features keynote speaker Dee Dee Myers. Myers is the first woman to serve as White House Press Secretary and *New York Times* bestselling author of *Why Women Should Rule the World*. In honor of the event, we asked clients and friends “Why Should Women Rule the World?” Click the image to the left to read some of the insightful and clever responses.

We look forward to continued opportunities and are proud to join many of our clients and friends who are actively engaged with the Federation in support of their good work.

Fairport News

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



Fairport was recently recognized in the April issue of *Crain's Cleveland Business* as one of the top 10 Largest Investment Advisers in Cleveland. The list was ranked by assets under management locally.

We are proud of our Cleveland roots dating back to 1963 and look forward to serving our clients in Northeast Ohio and beyond for many years to come.

Thanks for helping Fairport achieve this distinction.

Andrew Connors attended the Certified Exit Planning Advisor Program at the University of Chicago and has achieved the Certified Exit Planning Advisor (CEPA) credential from the Exit Planning Institute™. This designation is in recognition of Andrew's years of professional experience, program participation and the successful completion of the comprehensive examination. This achievement is just one more demonstration of Andrew's passion and commitment to helping business owners succeed.

Emily Drake has been named co-chair of the 2013 Circle of Women event. Circle of Women brings together female leaders in the community to support two specific YWCA Greater Cleveland programs: Nurturing Independence and Aspirations (NIA) and Independence Place. This inspiring event encourages attendees to learn how the YWCA helps our community, engage in networking and become philanthropists.

Heather Ettinger was asked to be a guest speaker at the Financial Planning Association's 2013 Retreat in Palm Springs. This conference brings together over 400 industry professionals from across the country to address the increasing demands of what it means to be a financial planner in today's environment. Heather presented a session on women as agents of change entitled *SHE-Change: Women's Emerging Role in the Family, Business and Society and Its Impact on the Financial Services Industry*. She also participated in an exciting panel discussion with several other conference speakers.

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.

Matt Bures and **Pamela Dagostino** attended a Cyber Security seminar sponsored by Benesch law firm featuring Steve Dettelbach, U.S. Attorney for the Northern District of Ohio, and an expert panel. Participants learned more about identifying threat factors and implementing necessary safeguards.

Rick D'Amico attended J.P. Morgan's 2013 Wealth Management Summit, *Transforming Uncertainty Into Opportunity*, in March in New York City. This invitation-only program allowed participants to engage in discussion with J.P. Morgan's chief investment officers, portfolio managers and analysts; hear about asset allocation, opportunistic strategies, equity and international markets from global strategists; and gain new perspective about re-risking strategies.

Kristen Gall is attending LIMRA's Marketing and Research Conference in Orlando this week. Sessions include: *One Size Does Not Fit Small: A Fresh Perspective On Marketing to Small Business Owners, The New Frontier: Digital Marketing* and *Consumers & Producers: Can They Be Social?*

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.