

Newsletter – May 2013

First Quarter 2013 Market Recap

MARKET TRENDS 03/31/2013

<u>US Stock Markets</u>	<u>Q1</u>	<u>12 Mos.</u>
S&P 500 Index	10.61%	13.96%
S&P MidCap 400 Index	13.45%	17.83%
S&P SmallCap 600 Index	11.81%	16.14%

<u>Int'l Stock Markets</u>		
EAFE Index	5.12%	11.26%
Emerging Mkts Index	-1.67%	1.96%

<u>Fixed Income</u>		
Barclays Intermediate Gov't/Credit Bond Index	0.26%	3.53%
Barclays Capital Muni Bond 3 Year Index	0.56%	1.66%

<u>Commodities</u>		
SFDR Gold Shares (NAV)	-4.69%	-5.43%
Goldman Sachs Commodities	0.55%	-4.96%

<u>Real Estate</u>		
Dow Jones US REIT Index	8.41%	16.39%

<u>Yields</u>	<u>3/31/2013</u>	<u>12/31/2012</u>
T-Bills	0.07%	0.04%
10 Yr UST	1.85%	1.76%

Sources: Total Returns from WSJ Market Data Group, Standard & Poor's, Barclays

2013 started where last year left off with the Dow Jones Industrial average booking its best first quarter since 1998. As pundits worried about the impending disaster of going off the “fiscal cliff”, domestic equities raced ahead to produce double-digit returns in the quarter. Mid caps (S&P Mid Cap 400 Index +13.5%) and small caps (S&P Small Cap 600 Index +11.8%) led the way while large caps (the S&P 500 Index +10.6%) were close behind. International equity market results were significantly different in the quarter with developed markets up only 5.1% and emerging markets down 1.7%. Our allocation to international equities, especially emerging markets, has been a drag on performance over the last year as U.S. equities outperformed. The weakness and volatility of international equities can be attributed to reduced economic growth estimates, an inconclusive Italian general election, the Spanish recession and corruption charges against its Prime Minister, and Cyprus’ shocking plan to tax citizens’ bank accounts as a precondition to the country receiving international financial aid. Emerging market equities had their biggest first-quarter drop since 2008 and were further weighed down by concerns about the Chinese property market. However, we continue to believe that allocations to international equities, particularly emerging markets, are appropriate and provide long-term opportunities.

For the first quarter, bond returns were generally anemic except for U.S. high yield (+2.9%). U.S. government, investment grade corporate and municipal bonds produced small positive returns while mortgage-backed securities finished with slight losses. International developed market bonds were negative for the second consecutive quarter (-3.5%) and emerging market bonds retreated (-3.3%) but are still up over 18% in the last twelve months. With cash moving out of money market mutual funds, domestic and international equities received positive inflows while bond fund inflows continued to be strong.

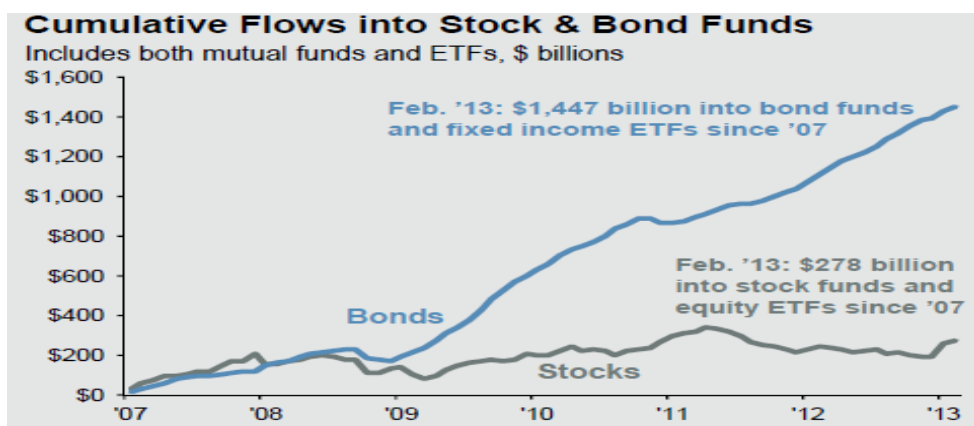
Tim Vanech
Tvanech@shorepointpartners.com

Luis M. Raposo, CFA
Lraposo@shorepointpartners.com

Main 781 341 7250
Fax 781 341 7246

14 Page Terrace
Suite 2 C/D
Stoughton, MA 02072

shorepointpartners.com



“...markets seemed to be deadline-exhausted and savvy enough to anticipate the resultant can kicking again!”

“...the government has been forced to decrease the growth of its spending, albeit through its own inability to compromise.”

“We believe there are many opportunities to own stocks at reasonable prices in global companies that are not solely reliant on China’s growth story remaining intact.”

Tim Vanech
Tvanech@shorepointpartners.com

Luis M. Raposo, CFA
Lraposo@shorepointpartners.com

Main 781 341 7250
Fax 781 341 7246

14 Page Terrace
Suite 2 C/D
Stoughton, MA 02072

shorepointpartners.com

The broader basket of commodities rebounded slightly in the quarter, with the Goldman Sachs Commodity Index up 0.6%. However, gold was down 4.7% in the quarter while experiencing a double-digit sell off in March. Over the last year, commodities and gold are down over 5% primarily due to weak global economic growth and low inflation levels. Real estate had another stellar quarter with the Dow Jones U.S. Real Estate Index up 8.4% after finishing 2012 up 19%.

What Matters?

During the first quarter of 2013, we looked again at yet another self-imposed deadline on the dysfunction of Washington under the guise of the all-important “Sequester” (across the board spending cuts to non-discretionary budgets) being implemented on March 1st. As we met and talked with clients, we noted how concerned they were, yet the markets seemed to be deadline-exhausted and savvy enough to anticipate the resultant can kicking again! However, Congress did let the 2% social security payroll tax cut expire and revert to normal rates. As the market yawned through both the sequester and the expiration of the payroll tax cut, one is left to wonder what really matters now in making investment decisions and choices with capital.

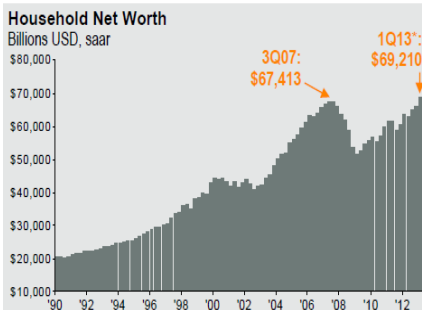
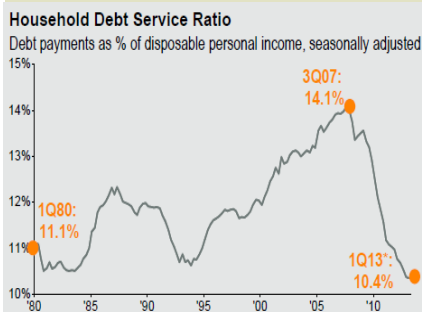
The market may not have reacted significantly to these issues since the major effects may be far off in the future and murky to predict. Our opinion is that both the sequester and the fact that consumers are taking home 2% less in income on average does matter, especially now four years into this gradual, sometimes halting recovery. We are also monitoring oil and gas prices which have a direct impact on Americans and discretionary spending. A gasoline price decrease could lessen, offset, or delay the effects of the higher payroll tax. And conversely, a spike in energy demand and pricing in addition to more scant take home pay and the reining in of government spending on labor could cause a deeper slowdown. In short, these developments on the domestic front are at least mildly negative except for the fact the government has been forced to decrease the growth of its spending, albeit through its own inability to compromise.

Jim Chanos, “60 Minutes” and the China Short

A favorite rung to climb on the current “wall of worry” concerns China. Listen long enough to any financial news outlet and you will hear of the impending crisis in China, detailed specifically by hedge fund manager Jim Chanos. In addition to Chanos’ concern about fictionalized earnings and fake companies trading on China’s stock exchanges, “60 Minutes” ran a report on the massive, state sponsored real estate build taking place now which the reporters anticipate is part of a real estate bubble being formed unencumbered, in this case, by the disciplines of market forces. The China slowdown “bogeyman” has been with us for years now, and while it may happen in the future, the

“In our hearts lies a stubborn optimism in good prevailing over evil and the persistent desire of all of us to improve our lives.”

Less Debt, Higher Net Worth



Tim Vanech
Tvanech@shorepointpartners.com

Luis M. Raposo, CFA
Lraposo@shorepointpartners.com

Main 781 341 7250
Fax 781 341 7246

14 Page Terrace
Suite 2 C/D
Stoughton, MA 02072

shorepointpartners.com

nature and timing of that calamity is not something on which we think long term investors need to focus. We expect volatility to continue in the rapid and giant development of China that will impact investors, but do not think this should be a concern at the forefront of investors' minds. We believe there are many opportunities to own stocks at reasonable prices in global companies that are not solely reliant on China's growth story remaining intact.

Geopolitical Risk and the Unknown

Perhaps the most well placed fear any of us have relates to the unknown - especially the large, unexpected events that are acts of aggression, war, and terror. The potential for these occurrences is always with us. We are reminded again of our own vulnerabilities here in the U.S. with the recent bombing in Boston. The senseless cruelty and the timing and nature of these historic moments are impossible to predict. While sadly they are likely to always exist, we at Shorepoint do not usually recommend changes to long term strategies based upon them. In our hearts lies a stubborn optimism in good prevailing over evil and the persistent desire of all of us to improve our lives.

U.S. Economy and Corporate Earnings

Overall, consumers continue to deleverage while also spending a fair amount on replacing old cars with new ones. In addition, there are signs of strength in pockets of the real estate market and consumers are feeling better. The recent easing in the price of oil and gasoline has helped ameliorate the payroll tax increase temporarily. There is also the possibility for improvement in energy technology in the coming decades that might usher back in some manufacturing jobs that have been lost to globalization in the last twenty years. The case for a U.S. manufacturing renaissance may be oversimplified, if not overstated, but we think that greater energy independence and lower costs can make the U.S. an attractive manufacturer again while enhancing our national security. We see signs of international companies building factories in the U.S. and multinationals are moving some production back to the U.S.

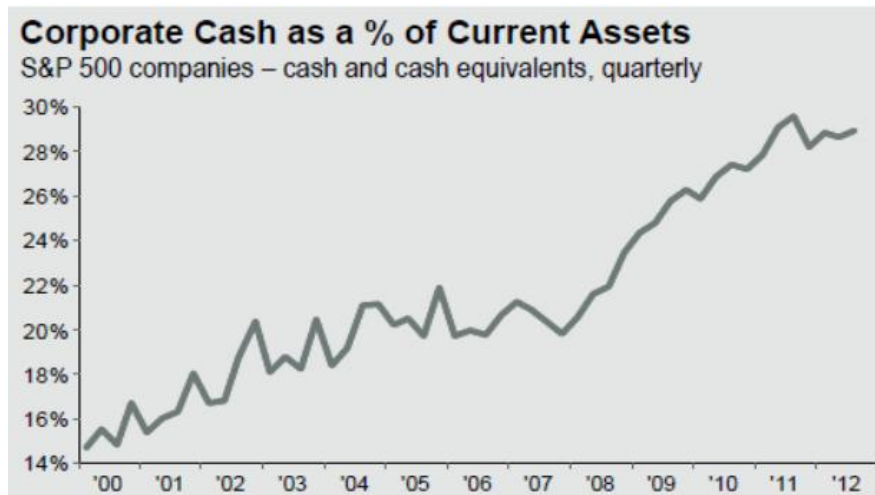
For the first quarter, corporate earnings were relatively strong helped by robust profit margins and what were fairly low investor expectations. Weak sales growth is a concern as the slowdown in economic growth and the negative impact of the strong dollar take its toll on domestic multinationals. However, cash generation is still very strong and cash levels are at record high levels. Companies are using cash to make acquisitions, repurchase shares and to initiate/increase dividends. Also, dividend payout ratios are still at historically low levels, leaving room for further increases. For example, Apple announced that it will return \$100 billion to shareholders via its dividend and stock buybacks by 2015. This works out to be about 8% per year – a dividend yield of about 3% (a 15% increase) in addition to 5% of stock purchased per year. The Apple example might be extreme but proliferation of companies focusing on returning cash to shareholders is encouraging.

“...dividend payout ratios are still at historically low levels, leaving room for further increases.”

“Markets do not rise forever without corrections.”

“It is when people stampede into an asset without regard or analysis of the price paid that we will worry most.”

The yield on the S&P 500 Index is 2.5% compared to 1.9% for a 10 Year U.S. Treasury – this divergence last occurred in the 1950’s with the result being a decade of above average equity returns. At a time when interest rates are so low, investors are starting to move cash from their money market funds to equities given the attractive dividend yields and relative valuation.



Source: Investment Company Institute, J.P. Morgan Asset Management.

Conclusion

We observed investor complacency lift prices higher in the first quarter of 2013 with little downside volatility. However, there is no free lunch in life. Markets do not rise forever without corrections. We would expect, and are already seeing, complacency drop a bit, as are the market prices of stocks, and we think that is a healthy sign. People are still fearful from 2007-2009 and with good reason. They maintain their pessimism, and as long as we have many voices clamoring against this rise in the market, we feel better that this market is not topping. It is when people stampede into an asset without regard or analysis of the price paid that we will worry most - or when they sell without regard to price as many did in the long bottoming process of 2009. We don't think we are at a bottom or a top currently and will flow and ebb against the tide, looking for mispriced opportunities to increase our positions while shucking off those that sell for too much. Overall, we continue to maintain a constructive view of stocks and generally have an overweight allocation to equities.

Tim Vanech
Tvanech@shorepointpartners.com

Luis M. Raposo, CFA
Lraposo@shorepointpartners.com

Main 781 341 7250
Fax 781 341 7246

14 Page Terrace
Suite 2 C/D
Stoughton, MA 02072

shorepointpartners.com