

# Market Sense: 2012 Review and 2013 Outlook

Groucho Marx once said, "Politics is the art of looking for trouble, finding it everywhere, diagnosing it incorrectly and applying the wrong remedies." After observing the fiscal cliff talks, we see more truth in that statement than ever. Following 18 months of debate about grand bargains and deficit reductions, we can't help but be underwhelmed at the remedy Congress gave us. The American Taxpayer Relief Act of 2012 (passed in the early hours of January 1) did little to solve our country's long-term fiscal challenges. Rather than a balance of tax reform, revenue enhancements and spending cuts, the plan is almost all tax increases. The goalposts were simply moved again. The new deadline is March 1, when we will hit the debt ceiling and automatic spending cuts take effect. After three botched attempts to address core fiscal problems, it is easy to be skeptical about politicians' ability to change now. But if not now, when will the hard decisions come?

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Following the presidential election, the market moved on every fiscal cliff rumor. Yet even with all of this uncertainty and perceived caution, markets were essentially flat on the quarter and ended up with solid double-digit gains for the year. How can we reconcile the exceedingly complex political year and disappointing economic growth with double-digit market gains? Can we expect more of the same in 2013? We will address each of these questions



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below and conclude with a review of our portfolio positioning at the beginning of 2013 and shifts we'll be making in the near future.

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<i>S&amp;P 500</i>	-0.4%	16.0%
<i>Dow Jones Industrials</i>	-1.7%	10.2%
<i>Russell 2000 (U.S. Small Company)</i>	1.9%	16.3%
<i>MSCI EAFE (International)</i>	6.6%	17.3%
<i>Dow Jones—UBS Commodity Index</i>	-6.3%	-1.1%
<i>Barclays U.S. Aggregate (Taxable Bond)</i>	0.2%	4.2%
<i>Barclays 5-Year Muni (Tax-Free Bonds)</i>	-0.2%	3.0%

## 2012 IN REVIEW

Ultimately, 2012 ended up as a better-than-average year for most investments. U.S. stock indexes were up between 12% and 18% in most cases. The market was led by *financials* and consumer stocks, generally good signs of improving economic fundamentals. Returns varied across international markets, but most major markets saw double-digit gains. Core Europe performed well, as did Mexico and Japan. However, the periphery of Europe and many emerging markets, including China, lagged for the year.

It was a relatively quiet year for U.S. Treasuries. The rate on the benchmark 10-year Treasury dropped from 1.87% to 1.75%. However, the search for yield continued to drive investors to more aggressive segments of the fixed-income market. In fact, the most significant trend of 2012 was the persistent and strong flow of money toward yield-oriented investments.

Global central bank actions with regard to sovereign bonds, such as U.S. Treasuries, have pushed yields to a point where investor dollars are fleeing toward other sectors, namely corporate, emerging and mortgage bonds, but also areas like REITs. Since the 2008 crisis, bond mutual funds have had net inflows

of \$1.1 trillion while investors have redeemed \$503 billion from equity funds. Moreover, after more than a decade of lackluster equity returns, most institutional investors have allocations to equities of 30–40% as compared to almost double that a decade ago. Our longer-term fear is that manipulation of the Treasury market by the Federal Reserve is causing a misallocation of capital that will end badly for investors who continue to push up the prices of yield-oriented investments. Investors are likely underestimating the risk they are taking by all piling into the same markets.

The real action in the economy and politics during 2012 was back-end loaded. As we mentioned previously, the fiscal cliff debate went down to the wire, and even then ended up being a punt. Nonetheless, investors are forced to assess how the current deal will impact 2013. In 2012, the U.S. economy grew approximately 2.5%. The fiscal cliff compromise will result in an economic drag of 1–1.5% next year, mostly due to higher taxes.

Next, we will touch on how the markets and economy are likely to perform in the face of this fiscal austerity and the battle looming in the first quarter.

## LOOKING AHEAD TO 2013

We shy away from making near-term predictions, believing they are no better than a coin toss. Further, when scanning the horizon, sometimes big trends are actually easier to see. In our white paper series last year, we highlighted the long-term positives, saying, "The untold story is that our economy is evolving much faster than most others around the world and the industries that are likely to drive the next generation of growth are becoming visible." Specifically, we pointed to the factors creating this more positive environment: labor cost competitiveness, energy costs and global rebalancing. These trends all remain in place and give us optimism that long-term investors will be rewarded for investing in stocks. At the same time, we can't help but feel that



some hurdles remain before this new world can emerge. History tells us that financial crises typically end with currency and government debt adjustments. We reached the limits of private sector debt accumulation in 2008. Strong governments around the world have been able to continue accumulating debt since, but eventually even the debt cycle for governments will end. We cannot predict when that will occur, but we continue to believe that *trends that can't continue will eventually stop*. We would put trillion dollar deficits for the U.S. in this category.

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We prefer to take a “weight of the evidence” approach when making asset allocation decisions for client portfolios. This takes into account both the long-term (structural) views and shorter-term cyclical views, as well as valuation and market momentum. We can't yet shift to an outright positive view because we have seen zero movement toward long-term changes that will improve the structural horizon. In our white paper series, we highlighted 10 policy changes that we felt would solidify the long-term positive story. Five years into the economic crisis, we see little or no progress on any of these priorities.

The cyclical story looks better. Fear of a double-dip recession has eased in recent months. Over the last four years, however, we've seen that when investors get more comfortable and anticipation of a return to 3%+ growth turns widespread, disappointment quickly follows. We can't help but wonder if the recent fiscal cliff legislation and the ongoing political fight could trigger this next round of disappointment. The fundamentals of the economy remain capped as private sector deleveraging runs its course; thus, much of the upside surprise has likely been coming from the ebb and flow of government intervention.

There are four ways that the government can stimulate (or restrain) economic activity: monetary, fiscal, trade and regulatory policy. Monetary policy has done the heavy lifting in the past few years, but its impact is being diluted as the Federal Reserve has fewer tools available. Using fiscal policy appears to be out of the picture, given that policymakers seem to be going in the direction of spending cuts and tax hikes rather than additional stimulus. The global free-trade movement has been mostly quiet since 2008, but subtle shifts indicate a potential for negative action in the form of currency battles. Finally, regulatory trends are restrained.

Thus, we must conclude that optimism for better-than-expected near-term economic activity could be met with disappointment. Analyst expectations for S&P 500 earnings of \$113 next year seem unlikely without a surge in top-line growth or improvements in already high profit margins. The recent boost in the

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market could be driven by investors chasing a market up double digits in 2012 as well as by recent liquidity boosts by the Fed [expanded quantitative easing (QE)], The European Central Bank (unlimited guarantees) and the Bank of Japan.

In wrapping up this 2013 preview, we think it would be helpful to spotlight a few comments from our key research providers. We read and analyze hundreds of sources of information, but the following five groups include, in our opinion, some of the sharpest analysts in the world.

## NED DAVIS RESEARCH GROUP

"Inevitable bouts of excessive optimism will lead to corrections as the year progresses. But a year from now, we expect to be seeing double-digit gains on most indices globally ... we expect stocks to outperform bonds decisively over the course of 2013."

## GAVEKAL

"It is our belief that, in 2013, improved cyclical conditions will outweigh the structural concerns. Equity markets have already moved in anticipation of normalizing growth conditions and recently this optimism is starting to be confirmed by an upturn in the global [Purchasing Managers Index]. During 2013 we would expect this 'reach for yield' to spur higher P/E multiples across the U.S. Equity market."

## BCA RESEARCH

"We should stress that we are not looking for huge stock market gains; total nominal returns of around 6% a year over the medium term seems a reasonable expectation for a global equity portfolio, almost half of which will come from dividends."

## STRATEGAS RESEARCH PARTNERS

"If the budget deficit and more general fiscal problems can be managed, then the economy looks poised to grow. There looks to be a pent-up demand story developing in the U.S. that is the base of our stronger 2H 2013 growth estimate ... For those with understanding clients and the intestinal

fortitude to perhaps suffer the slings and arrows of a tough first quarter, the valuation differentials between equities and bonds are nothing short of extraordinary."

## THE LEUTHOLD GROUP

"There are many fundamental, psychological and technical forces driving stock prices that have nothing to do with valuation. Some of these influences may evolve—even in the next few weeks—in such a way as to turn us bullish, but unfortunately it won't be because U.S. stocks are cheap. (And it's telling that those who argue that stocks are cheap invariably invoke a bubble asset class—bonds—in comparison.)"

## PORTFOLIO POSITIONING

After reviewing the above research highlights, it is clear that most of these analysts are cautiously optimistic on the economy and generally comfortable with equities as the investment of choice, especially compared to bonds. Our caution on the economic momentum is somewhat at odds with this, but we won't go against the opinions of our core research providers. In essence, we are giving the market the benefit of the doubt right now. As we mentioned in our last quarterly letter, the "market environment warrants a **defensive, but not bearish**, portfolio positioning."

We firmly agree that the equity market is the better investment over any longer-term period, but an investor must recognize that volatility can return quickly. Moreover, we want to wait and see if the expectation for more significant economic momentum is warranted, as there have been several false starts over the last four years.

We also agree that as long as short-term rates stay near zero and central banks around the world actively purchase AAA-rated assets, the search for yield will continue. This may ultimately lead to misallocation of capital and bubbles in some areas, but that is a report for another day. If something



happens to disappoint economically this year, it is likely to come from two places. The first risk would be an improvement in U.S. employment that is more rapid than anticipated. This would push interest rates higher as the debate about the end of Fed easing moves to the fore. The second risk would be to corporate earnings from a global deflationary push, likely triggered by more intense currency battles. We will keep our eyes focused on both of these risks and others that arise during the year.

**AS ALWAYS, WE WILL CONTINUE TO  
MONITOR POLITICS, THE ECONOMY  
AND THE MARKETS FOR NEW  
OPPORTUNITIES AND RISKS.**

In the meantime, our portfolios remain positioned toward our four key themes: large over small among U.S. stocks; east over west among international stocks; real assets to protect from currency debasement; and short-term over long-term in fixed income. Within this positioning, some shifts are likely in the first quarter. First, we have been shifting a portion of our U.S. investments toward managers with better historic performance in down markets. Given that the market has more than doubled in the past four years, future gains are likely to be muted and managers who focus on risk management should outperform.

Second, we remain committed to a globally diversified portfolio. This commitment can create periods when our portfolio performance varies from U.S. benchmarks, but over time it should benefit the portfolio through higher risk-adjusted returns. We have slightly increased portfolio exposure to Europe as those markets are the best values in the world. We are also currently performing due diligence on what are called frontier markets—basically, the next round of economic development in places like Africa and Southeast Asia.

Third, we are somewhat reducing our exposures to the most commodity-sensitive parts of the real asset market as slower global growth and increased supplies are likely to keep a lid on outright commodity inflation. Finally, we continue to look for ways to hedge a portion of client portfolios. Many types of hedged strategies have struggled in the last year. We are generally pleased with our manager line up in this space, but we are anticipating some minor adjustments to this area in the first quarter.

As always, we will continue to monitor politics, the economy and the markets for new opportunities and risks. We know that in a world of the 20-minute news cycle, many things are likely to happen that can't be planned for. We will endeavor to navigate the increasingly tricky waters while always keeping an eye on the long-term goals of our clients. We wish you all a happy and prosperous 2013 and thank you for your continued confidence in our team.



# SignatureWOMEN

## Off to a Strong Start

We're excited to share information surrounding the official rollout of the first of SignatureFD's targeted initiatives, SignatureWOMEN.

### EMPOWERING WOMEN TO LIVE A GREAT LIFE

SignatureWOMEN's mission is to financially empower women to use their wealth to live a great life. You may wonder why we decided to form a specialized group within our firm for our women clients. Well, women have unique financial needs. But for too long, the financial services community has ignored many of women's concerns about wealth management. In response, we formed our women's advisory board and sat down and listened to our clients' concerns. We've taken what we've learned from those conversations and developed a unique approach that will help women build and grow their wealth.

### WHAT IS SIGNATUREWOMEN?

SignatureWOMEN is for women who want to take control of their wealth, including women in transition (e.g., divorcées, widows and those preparing for retirement) as well as entrepreneurs and professionals who want to take a more active role in managing their finances.

By becoming a part of the SignatureWOMEN community, you'll be able to connect with others, learn more about financial issues and become even more empowered in managing your financial future. Our Wealth Blueprint Process will help simplify your financial life, save time, secure your future and reduce your risks, providing you peace of mind and comfort so you can live a great life.

**Our SignatureWOMEN community is already growing.** Here are a few examples.

- Author Susan Hirshman shared a unique way to learn about investments in a discussion about her book, *Does This Make My Assets Look Fat?*
- Joanna Barsh shared her thoughts from her book, *How Remarkable Women Lead*.
- We heard Stephanie Davis of Georgia Women for a Change speak about the horrors of human trafficking in Atlanta.
- We spoke to "Women Alone Together," a women's group sponsored by Agnes Scott College, describing the basics of becoming financially fit.

- We taught a class at a health spa (Rancho La Puerta) describing what it means to be financially fit.

While enjoying each other's company, we've also had a chance to give back to the community and build awareness of several local nonprofits, including Camp Kudzu, Skyland Trail, Special Olympics, Beauty Becomes You, Girl Scouts, Blindness Foundation, G-CAPP and The Atlanta Dream.

To end the year, we hosted our second SignatureWOMEN's Advisory Board meeting. We felt like the women's initiative formally began when we brought together 11 smart, independent women from all different stages of life. The board is helping SignatureFD improve existing services and define new opportunities to help our women clients, as well as creating connections and growth for SignatureWOMEN so that we can reach and help a larger population of wonderful women in Atlanta.

**We want to take this opportunity to share our sincere gratitude for the time, interest and advice given to us by our board members.**

- **TERI BLEDSOE**
- **LINDA BOOKER**
- **CAROLYN BRADFIELD**
- **PAM BUNYAN**
- **JILL CAMPBELL**
- **CARLA COX**
- **NANCY DAVIS**
- **LYNNE FLATER**
- **JANE HAVERTY**
- **CAROLINE JOHN**
- **ELISA PRAGER**

As you can see, we're building a very exciting community. By bringing women together in all different phases of life for social and business networking, we're helping them gain access to resources and support. We hope you, or the women in your life, will join us on this journey.

What's in store for SignatureWOMEN in 2013?

## UPCOMING EVENTS

### EDUCATION

- **2.13.13 Lunch & Learn:** Effects of Technology on the American Family

#### *Upcoming Topics*

- Selling Your Business
- Adjusting to Life After Divorce
- Crash Course in Personal Finance

### HEALTH & WELLNESS

- **2.04.13 Exploring Yoga:** Self-Awareness, Self-Discovery and Self-Realization

#### *Upcoming Classes*

- Self-Defense Class
- Importance of Weightlifting

### BLOG POSTS

- A Retirement Income Roadmap for Women
- Why You Need a Plan: The Importance of Working with a Financial Advisor
- Why Women Make the Best Investors
- How Do I Know I Have Enough to Retire?

## VISIT

[www.signaturefd.com/events-calendar/](http://www.signaturefd.com/events-calendar/) to see a complete schedule of upcoming events.

If you'd like to learn more about SignatureWOMEN, please talk to your relationship manager or contact Page Harty, Market Leader for SignatureWOMEN, at [page.harty@signaturefd.com](mailto:page.harty@signaturefd.com).

# SignatureFD Brief

**David Fisher, SignatureFD's Founding Partner and Chief Investment Officer**, was quoted in the November 30, 2012, edition of the *Atlanta Business Chronicle*. In the article, "Investors Find Alternatives as Returns Diminish," Fisher offered insight on so-called alternative investments, which some investors have turned to in an attempt to generate stronger returns.

**SignatureFD was named one of Atlanta's Top 25 Financial Planning & Advisory Firms** by the *Atlanta Business Chronicle*.

**Chad Zimmerman, Partner, has been elected to the board of CredAbility**. Founded in 1964, CredAbility is one of the leading nonprofit credit counseling and education agencies in the United States, serving clients in all 50 states plus the District of Columbia, Guam, Puerto Rico and the U.S. Virgin Islands. In addition, CredAbility provides in-person counseling at offices in five states in the southeast.

**On October 9, SignatureWOMEN**, as a member of The Professional Women's Alliance, sponsored "Women in Leadership," an open discussion with four successful male Atlanta CEOs on what it takes to get to the top.

**On October 22, SignatureWOMEN** sponsored a luncheon benefitting Camp Kudzu, Georgia's largest resource, outside of hospitals and clinics, for diabetes self-management education.

**October 30, SignatureWOMEN** joined women business leaders, Frazier & Deeter, and the Oxford Center for Entrepreneurs at the Women Entrepreneur Growth Summit, a panel event examining real-world ways to lead business growth.

**On November 1, Vicki Shackley, Principal**, spearheaded an event, co-sponsored with Schwab Institutional, at Neiman Marcus benefitting "Dress for Success," an organization that promotes the economic independence of disadvantaged women by providing professional attire, a support network and career development tools.

**Page Harty, member of Fidelity's Women in Wealth Steering Committee**, and **Kameron Besson** represented SignatureWOMEN at the first annual Women in Wealth Leadership Forum, November 27–28 at the Boston Harbor Hotel.

**On December 5, SignatureWOMEN** hosted a holiday event at Woo Cosmetics and Skincare.

**On December 11, the SignatureWOMEN Advisory Board** reviewed action items resulting from members' input last quarter, including the development of a formal description and plan for the SignatureWOMEN's initiative through the service sheet, formal announcement, blog series and calendar for 2013.

## SIGNATUREFD

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## SPOTLIGHT



### Page Harty, CFP®

*Partner and Market Leader, SignatureWOMEN*

Page is a CERTIFIED FINANCIAL PLANNER™ professional and has been in the financial services industry for over 20 years. She has spent the majority of her career providing comprehensive financial advice to high-net-worth individuals and families. As an advisor, she is dedicated to her clients and committed to furthering her expertise, building long-term relationships and placing her clients first.

Page is the leader of SignatureFD's women's initiative, SignatureWOMEN, and is passionate about helping other women become financially empowered to use their wealth to lead a great life. She is committed to helping our women clients create a plan that guides them through life's transitions, such as the loss of a spouse, divorce, selling a business, retirement and job changes.

Page is a native Atlantan. Her two grown sons, Mat and West, live in Washington, DC, and Jacksonville.

**When I'm not working:** I love spending time with my sons, girlfriends, watching movies and reading a good book.

**Little known fact:** I love to make beaded jewelry.

**Executive I admire:** Katherine Graham

**Favorite books:** *The Fountainhead*, by Ayn Rand; *The Pillars of the Earth*, by Ken Follett; *Personal History*, by Katherine Graham

**Favorite quote:** "The question isn't who is going to let me, it is who is going to stop me."  
— Ayn Rand.

**Favorite movie:** *It's a Wonderful Life*