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INVESTMENT MANAGEMENT
Money Managers You Can Trust

April 2013 Thoughts and Insights

Since the beginning of 2013 the equity markets have made some impressive returns. Although it may be exciting and perhaps relieving to see the markets reach new heights, we must remain neutral and remind ourselves to observe and react to the markets with our long term investment goals in view. Our job is to try to understand if the recent improvements in the economy are short-lived, or are a sign that the US economy is on its way to a sustained recovery.

We believe that stocks in the first quarter outperformed due to investors' enthusiasm about the Fed's third round of Quantitative Easing, otherwise known as artificially keeping interest rates so low that investors are forced to buy stocks to seek any type of return. Although this has been enough to keep our weak economy from the verge of recession, each repeated round of QE has produced short-lived rallies and has a smaller and smaller effect on real economic activity. We believe that the recent bounce will prove to be temporary as well.

Even though the employment picture has shown signs of improvement, just last week the latest unemployment announcement was a colossal miss. During March, the US added only 88,000 jobs, as compared to the median expectation of 175,000. The normal monthly number of people entering the workforce needed for growth is 250,000.

The housing market has also shown signs of recovery, but as we dig a little deeper we are worried that its recovery may also not be sustainable. Millions of homeowners would like to, but can't, sell their homes due to underwater mortgages. These homes are not counted in current inventory; therefore, the demand for homes from new buyers is being satisfied through a limited inventory plus new home building even though there is an abundance of distressed and unsold homes. This leads us to believe that the recent bounce in housing sales and prices is not a sign of real economic recovery.

Our last concern is the sustainability of high corporate profits which are currently more than 70% above their historical norms. Uncertain fiscal policy continues to restrain capital investment by global companies, and the current tax advantages that allow US companies to protect their foreign profits will end soon. Profit margins will also be hurt by interest rate increases, which are inevitable. The current distorted profit margins create the illusion that stocks are reasonably valued, when in fact they are overpriced and due for a correction.

For all the above reasons, it is our view that the economy is doing better, but is still well shy of a sustained recovery. We believe that the stock market is not likely to continue on its upward trajectory, and we don't see anything on the horizon that prompts us to make any significant changes to our current investment strategy. Although we have made moderate additions to our equity portfolio we will continue to be very selective about our equity exposure. Additionally we will continue to focus our investments on income producing securities, and maintain our commitment to hard assets.

As always, we remain dedicated to you and your investments. We invite you to call, write, or stop by anytime with any questions or comments you may have.

Michelle

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