ROOF ADVISORY GROUP, INC.®
INVESTMENT ADVISORY & FINANCIAL PLANNING SERVICES

INVESTMENT INSIGHT

April 2013

1st Quarter Review: U.S. Market at All-time High and a Near Miss in Cyprus

The first three months of 2013 were strong for U.S. financial markets. The S&P 500 logged a 10% gain in the quarter and the Dow rose by almost 12%. Much of this pent up market demand was prompted by the Fiscal Cliff deal that eliminated some of the tax policy uncertainty that weighed on the markets at year end. Despite lackluster GDP growth in the final quarter of 2012, economic data for first quarter 2013 were mostly positive; with January and February employment and housing figures exhibiting continuing improvement. In response to positive data and overall market optimism, Roof Advisory Group clientele benefitted from the recent market run up, as the firm had previously increased equity exposure in client accounts to one-step below maximum for each investment policy.

One notable event out of Europe in March led to a brief pause in the markets—the European Central Bank and International Monetary Fund's bailout of Cyprus, which was the result of a banking crisis in the small European island nation. As part of the bailout package, Cyprus was required to tax deposits held by banks. Many feared that the tax on deposits would set a precedent where any country in Europe could seize bank deposits to pay for a bailout, which would in turn lead to runs on European banks and set the stage for a global banking crisis. So far, this fear has not become a reality and U.S. markets seem to have shrugged off the event—both the S&P 500 and Dow hit their all-time closing highs in March.

Fixed income has garnered much negative publicity in 2013 led by fears of rising interest rates and depreciating bond prices. Given the dovish nature of the Fed and hesitation by many retail investors to take dollars out of bonds and reallocate them into equities, these fears are likely premature and overstated. However, rates currently are at historic lows and there is nowhere for them to go but up. Fixed income markets have seen slight rate increases recently that likely will continue, but the often hyped bond bubble "burst" likely will be more of a "slow hiss" as markets gradually drive rates back towards their historic average.

There have not been significant thematic deviations from those noted in our December Investment Update. The most notable change has been an increase in overall portfolio Beta associated with a one-step increase in equity exposure. Bias remains in large-cap equity holdings, which are offering superior returns relative to the risk being taken. Equity yield remains a primary focus and dividend payers have exhibited strong gains in the first quarter, which has benefitted the portfolios of management clientele. Duration on the fixed income portfolio remains below historic norms in preparation for rising interest rates.