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INSIGHTS

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SEIA's Investment Committee

SEIA's Investment Committee meets frequently to discuss current market trends and potential investment managers. The Investment Committee is composed of SEIA's Senior Partners and Financial Advisors, all who hold a variety of advanced degrees and certifications, including Master of Science Degree in Financial Services, Certified Financial Planner™, Chartered Financial Analyst, Chartered Mutual Fund Counselor, Chartered Financial Consultant and Accredited Investment Fiduciary®.

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2013 Q1 INSIGHTS: *The Veuve-Clicquot Quarter?*

RECAP: Heading into the quarter, the Investment Committee's research indicated that if Washington provided clarity (via a Fiscal Cliff compromise), then Wall Street would provide prosperity. As the post-election analysis suggested that the political landscape had changed from August 2011 and that a compromise could be reached, a last-minute New Year's Day deal was finalized. The New Year's champagne flowed both literally and figuratively as capital markets quickly responded to the deal with the S&P 500 "popping" 2.5% on the first trading day of the year.

But perhaps most noteworthy in the quarter was the lack of news. At last, we experienced a quarter absent of terse campaign rhetoric, an election, or a congressional showdown. Investors have grown immune to the recent phenomena of political brinkmanship as the most recent congressional acts (Sequester, Continuing Resolution spending bill, etc.) ultimately were non-events. And even the news out of Europe was relatively benign. The Italian election and Cyprus bailout barely caused a ripple. As a result, U.S. equity markets were free to focus on underlying fundamentals: improving job and housing markets, decent equity valuations, and easy monetary policy. This provided enough stimuli to propel markets to their fifth consecutive positive month—and the best first quarter for the Dow Jones since 1998.

The quarter ended like it began—with the bulls in charge. On the last trading day of the quarter, not only did the S&P 500 close at its high for the year, but the index also surpassed its all-time closing high of 1565 (reached in October 2007.) While it is important to remember that the economy isn't operating with the same vigor as the stock market (and some on Main Street are still worse off than they were in 2007), it is not farfetched to think that some on Wall Street popped a champagne bottle or two to celebrate the S&P's historical achievement. The champagne bookends to the quarter were a nice change for long-term investors who have grown weary of the media's gloom and doom over the last few years.

Notable Sectors		Q1	TTM
Stocks	Global Equity	6.50	10.55
	U.S. Large Cap (S&P 500)	10.61	13.96
	U.S. Small Cap (Russell 2000)	12.39	16.30
	International Equity	3.17	8.36
	Emerging Markets Equity	-1.62	1.96
Bonds	Global Bonds	-2.10	1.25
	U.S. Aggregate (High Quality)	-0.12	3.77
	U.S. High Yield (Low Quality)	2.89	13.13
	International Aggregate	-3.51	-0.71
	Emerging Market Debt	-1.46	10.16
Other	Gold	-4.78	-4.56
	Oil	5.89	-5.62
	Inflation	0.71	0.80

Signature Estate & Investment Advisors, LLC (SEIA) is a Registered Investment Advisor firm offering Investment Supervision and Financial Planning Services tailored to meet the unique needs of affluent individuals and corporations. Wealth management is the product of an ongoing collaboration between investor and advisor, built upon trust and maintained according to the highest standards of integrity and expertise.

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EQUITY: Across the Atlantic, Europe's preference for austerity continues to hamper growth and many areas are experiencing a double-dip recession. Across the Pacific, after a promising end to 2012, fears of a Chinese slowdown resurfaced in Q1 and negatively affected Emerging Market (EM) equities. Fifty percent of OECD member countries had negative growth in the latest quarter and 30% have experienced two negative quarters in a row (a common definition of recession) which is in stark contrast to the ongoing string of positive U.S. GDP prints. As a result, U.S. stocks easily outpaced foreign rivals with domestic indices up almost 10%. Small Caps nudged out their Large Cap brethren and Value stocks continued to outperform Growth. However, in a somewhat counterintuitive fashion, the more conservative sectors were the leaders in the quarter; Healthcare, Consumer Staples, and Energy led the way (up 11-15%) while Materials, Technology, and Telecom were relative laggards (up 4-6%).

FIXED INCOME: Higher quality U.S. Treasuries & Mortgages lost money for the second quarter in a row as the yield on the 10-Year Treasury bond inched up 10 basis points from 1.75% to finish at 1.85%. Losses were not confined to the U.S. market—the Global Bond and EM Bond Indices finished the quarter decisively in the red, losing between 2% and 4%. But unlike equities, more aggressive fixed income sectors outperformed, with High Yield Bonds finishing the quarter up nearly 3%.

ALTERNATIVES: Commodities were mixed. Gold sustained losses for the second quarter in a row losing nearly 5%, while "black gold" (Oil) gained almost 6%. A diversified basket of commodities fell slightly in Q1 losing 1%. Master Limited Partnerships were spared tax status changes during Fiscal Cliff discussions and bounced back from a weak Q4, posting a nearly 20% gain for the first three months of the year. Real Estate Investment Trusts posted another strong quarter and finished Q1 up over 8%.

OUTLOOK: Equity markets can still march higher, valuations are not yet stretched, and monetary policy is extremely accommodating. As outlined above, overseas economic weakness may be the biggest risk to the U.S. stock market. Can the U.S. pull the rest of the world out of its doldrums or will Europe once again take center stage? Will the Chinese pause in their multi-decade long attempt to modernize their economy? It is important to recognize that it is customary for more aggressive sectors to lead a bull market—particularly in a quarter with 10%+ gains. Simply put, some of the historical leaders of past bull markets (Copper, Industrials, Materials, EM, etc.) are absent from the 2013 version. The lack of aggressive leadership may just be life in the New Normal, or it may be the canary in the coal mine—a signal to investors that the outlook may shift in the quarters ahead. Rest assured, we haven't popped the Veuve just yet.

Sincerely,
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Director of Investment Strategy