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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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2012 Q4 INSIGHTS

RECAP: While the fourth quarter of 2012 witnessed a flat equity market (the S&P 500 was down a negligible 0.38%), it was neither boring nor unforgettable elsewhere. Many in battleground states probably wish to forget the yearlong battle for the White House that culminated with President Obama's reelection. And we all may wish to forget this quarter's Fiscal Cliff negotiations. The wedge between the nation's liberals and conservatives just seems to be getting larger. It took tragedy, however, to reunite Americans around what matters most, as two horrific events were bookends to the quarter. Residents of the East Coast, particularly New Jersey and New York, were united in their fight against Superstorm Sandy, while families of all stripes were united as everyone hugged their children in the wake of the Sandy Hook Elementary School tragedy.

	Notable Sectors	Q4	2012
Stocks	Global Equity	2.88	16.13
	U.S. Large Cap (S&P 500)	-0.38	16.00
	U.S. Small Cap (Russell 2000)	1.85	16.35
	International Equity	5.85	16.83
	Emerging Markets Equity	5.58	18.22
Bonds	Global Bonds	-0.48	4.32
	U.S. Aggregate (High Quality)	0.22	4.22
	U.S. High Yield (Low Quality)	3.29	15.81
	International Aggregate	-1.04	4.09
	Emerging Market Debt	3.52	18.14
Other	Gold	-5.53	6.96
	Oil	-0.40	-7.09
	Inflation	-0.28	2.26

While Q4 may be remembered for events outside of capital markets, there were some important economic data points within the quarter as well. Equity Markets reached their 2012-highs days before the start of the quarter and the good news continued when the October unemployment rate finally fell below 8%. But further gains were not to be had. Soon after, corporations announced flat quarterly earnings growth. Zero growth coupled with a status-quo election (and the probability of increased taxes) sent equity markets down, retreating over 7% and bottoming mid-quarter. But was it a status-quo election? In looking at the details, our Investment Committee did not believe so and postulated that a Fiscal Cliff compromise would be reached and equity markets would respond. Stocks subsequently made a sharp V-shaped reversal and spent the rest of the quarter fighting to get back to the highs of September. Towards the end of Q4, stocks indeed responded as the last minute compromise led to a two-day Dow Jones rally of over 480 points. Stocks finished the year up 16% and on the first day of 2013, managed to get back within 0.20% of its 2012 high.

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EQUITY: International and Emerging Market equities, which did not have the same political headwinds as the U.S., posted strong gains in Q4 up nearly 6% and finishing the year up around 17% - barely edging out domestic stocks. Within the U.S., Value outperformed Growth and Small Caps outperformed Large Caps—although all returns were within 2-3% points. Differences between sectors, however, were large. Financials and Industrials led the quarter with gains of about 5% while Tech and Telecom brought up the rear as the two indices lost over 5% for Q4.

FIXED INCOME: Recent trends persisted as "riskier" bonds continued to shine. High Yield and Emerging Market Debt finished Q4 up over 3% with both nearly matching their regional equity returns for the calendar year. Higher quality bonds including Treasuries did not fare as well, as the government heavy Aggregate Bond Index was essentially flat for Q4 and up only 4% for the year. The yield on the 10-Year Treasury bond was virtually unchanged in Q4; the entire three-month range was only 20 basis points—ending the quarter at 1.75%.

ALTERNATIVES: Gold and Master Limited Partnerships posted 3-6% losses in Q4 after stellar returns in Q3. But Real Estate, which lagged in Q3, bounced back gaining over 2% for the quarter and over 17% for the year. Broad Commodities (including Oil) was the laggard for the quarter and the year, posting negative returns.

OUTLOOK: The S&P 500 finished 2012 with a gain of 16%. But what does 2013 hold? Earnings projections, valuations, and the investment landscape continue to favor equities over other investment choices. Perhaps more gains are expected—but will we have a repeat of 2012? Strange enough, investors were in the black (profitable) on every day in 2012 based on end-of-2011 levels. Going back to 1928, the S&P was positive year-to-date at the close of every day of the year in only nine other years. With the large Fiscal Cliff rally to start 2013, a repeat of 2012 may already be underway.

Sincerely,
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