



November/December 2016

Happy Holidays! During this season of thanksgiving, we would like to express our gratitude to Fairport's clients and friends. Whether you are a long-time client or you have started working with us this year, it is our privilege and honor to serve as your financial advisor.

From the entire Fairport team, thank you for your continued trust, loyalty and generous referrals. As always, we encourage you to share this newsletter with friends, family members and colleagues.

Mid-Quarter Commentary as of November 28, 2016

John M. Silvis, CFA

Chief Investment Officer

After what seemed to be one of the longest and the nastiest elections season since 1824 (the election was decided in the House of Representatives with John Quincy Adams defeating Andrew Jackson), Donald Trump captured a majority of electoral votes along with the Republicans winning a majority in both houses of Congress. Defying conventional wisdom, the equity markets had a positive reaction to the news of President-elect Trump winning the White House and the pro-growth agenda he laid out in his acceptance speech late on election night. Since the election, the S&P 500 Index has returned a positive +3.57% in 12 trading days. The MSCI All Country World Index, a better representation of global equity markets, has returned +1.07% while the Russell 2000 Index which represents small cap equities returned a strong +12.79%. The equity markets have responded mainly to the agenda of lower taxes (both on personal and corporate income taxes), less regulations and increased spending on infrastructure – all items that should see little resistance in a friendly Republican-controlled Congress. Wildcard issues such as trade and immigration have, at least for the time being, taken a back seat to economic issues where there seems to be a consensus.

Year-to-date, the domestic equity markets have continued to build on their gains with the S&P 500 Index registering a total return of 10.45% so far this year while the Russell 2000 Index has taken the lead among domestic indices with an impressive +20.15% so far in 2016. BoA-Merrill Lynch recently came out with a study that would indicate further gains into year-end. Going back to 1928, when the S&P 500 has been positive through November, the returns in December have been positive 78% of the time with an average return of +2.17% in the last month of the year. International equity markets, led by the MSCI ACWI, have not fared as well in the current quarter with a slight decline since the end of September.

The economy, both here and abroad, continues to show signs of picking up steam heading into 2017. U.S. GDP growth for the third quarter came in at 2.9%, higher than most economists had predicted. Recent data has continued to show signs of strength for the domestic economy. The Purchasing Manufacturing Index (PMI) for the month of October came in at 54.9, the highest reading since last November. Durable goods orders, such as appliances and furnishings, surged 4.8% in October confirming consumer confidence is improving.

The job market remains solid with the unemployment rate under 5% and wages increasing over the last 12 months. The housing market is also showing signs of steady growth with existing home prices increasing 12.2% versus last year. With the economy on firm ground the threat of a recession in the coming quarters continues to wane.

The Federal Reserve will likely raise rates at its next meeting in December. Fed Chair Yellen has stated she plans to serve out her current term expiring in 2018 which should provide a steady hand as we transition to a new administration. With

the shift towards more fiscal policy under a Trump administration, we could be seeing a new era of reflation in the coming years. The 10-year Treasury, which saw its yield spike to 2.36%, may already be discounting the likelihood of higher inflation.

Overseas, the U.K. economy has shown little wear after the June vote in favor of Brexit. After changing leadership, the process remains slow and the timeline for invoking Article 50 (the official request to leave the European Union) has not been finalized but most likely will take place in the first half of 2017. GDP growth for the U.K. was stronger than expected and retail sales continue to climb, bucking the fear that the vote would lead to economy chaos. Overall the Eurozone remains on steady ground with its November Flash PMI reading coming in at 54.1, hitting an eleven month high. The European Central Bank (ECB) continues to expand its balance sheet by purchasing government and corporate debt in an effort to keep rates low.

One of the unexpected outcomes of the surprise Trump victory has been a sharp rise in the U.S. Dollar, rising 3.6% since November 8th. This could have negative effects on foreign equity markets as the greenback looks to find resistance in the coming weeks or months. Emerging markets, which had been one of the best performing asset classes this year, have come under pressure since the election from both the rising dollar and the fear of more protectionist trade policies. The move is likely overdone and should see some reprieve heading into year-end. China, the second biggest market in the world, has seen improving growth in so far in 2016. Evercore ISI, a leading economic research group, has estimated economic growth was up 9.9% in October versus last year using a proprietary model.

There is likely a rotation underway within Large Cap equities from the defensive sectors into the more traditional cyclical sectors in response to the anticipated changes in economic policy. The defensive sectors (Utilities, Telecom, Staples and Real Estate), also known as “bond surrogates” for their above average yields, had been leading the markets for most of the year as low interest rates and low inflation remained the key drivers. With the prospects of better growth and lower taxes coming down the pike, investors have shifted to sectors that will benefit like Financials, Industrials and Energy. Lower corporate taxes should lead to higher earnings in the coming years, potentially adding \$10-15 to the aggregate earnings of the S&P 500 over the next two years.

We remain overweight equities as we head into the end of the year which traditionally has been strong for the stock market. We are overweight domestic equities versus our benchmark MSCI ACWI Index. As we believe the economy is on firm ground and the risk of a recession is low, we see further upside to equities over the coming quarters with an added tailwind of likely pro-growth policies from the incoming administration.

Fixed Income Commentary as of November 30, 2016

Rick D'Amico, CFA

Manager of Investments

10-year U.S. Treasury yields have risen sharply since the November 8th election, up .44% and, according to RenMac research, have now broken their intermediate-term downtrend. The ten-day move in the U.S. 10-year following the election was quite unusual, larger than 99.5% of all post-election ten day moves in the past 20 years. The general explanation behind the move is that the bond market views President-elect Trump's policies as reflationary, potentially leading to a large increase in the U.S. budget deficit. According to Cornerstone Macro, the majority of the move can be explained by an increase in inflation expectations, along with higher term premiums, which is the additional compensation investors require in order to commit to holding long term bonds. While RenMac's technicals suggest yields may be overbought near-term, expectations are for a consolidation, but with higher trending yields.

In terms of the Fed, the current implied probability of a .25% rate increase at the December 14th meeting is 100.0%, as indicated by the Fed funds futures market. In addition to the expected rate increase at the December meeting, our base case is for two .25% rate increases in 2017 and three in 2018.

The Barclays U.S. Aggregate has lost 1.98% since the election and has now returned a modest 2.78% year-to-date. The hardest hit sectors in fixed income over this time period have been long treasuries (20+ years), down 6.05%, and emerging market local currency bonds, off 6.38%. High yield bonds have held up relatively well over the same period, down just .24%. Our current positioning in portfolios is underweight duration, and overweight credit, relative to the Barclays U.S. Aggregate.

Paul Abbey Retirement

The end of the third quarter marked Founding Partner Paul R. Abbey's retirement from Fairport Asset Management. An industry pioneer, Paul founded the Hickory Group in 1988 with a focus on comprehensive wealth management well ahead of the times. Over the years, he led many key client relationships and proved to be an excellent rainmaker and skilled investment professional. His steady hand and talent for building lasting relationships is evidenced by his many longtime, loyal clients.

Paul is continuing his good work in our community through his commitments to Holden Forests & Gardens and the College of Wooster. Otherwise, he plans to golf, travel and enjoy time with Connie, his daughters and new grandson. To celebrate the true outdoorsman, Paul's sendoff was held at the Holden Arboretum and we have dedicated a hickory tree on the Kirtland property in his honor.

We thank Paul for his foresight, expertise and dedication and wish him many happy trails!

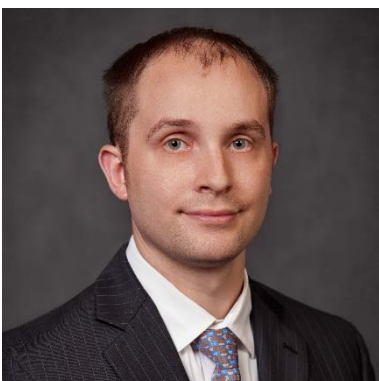


Meet Callie and Mike



Calla Hoyt Cornett is a CERTIFIED FINANCIAL PLANNER™ professional with over a decade of experience in the wealth management industry. She joined our team as an Advisor in August from Spero-Smith. Prior to that, she spent seven years at Hawthorn, a division of PNC Wealth Management, as a Wealth Strategist/Assistant Vice President providing integrated wealth management services to corporate executives, multigenerational families and entrepreneurs.

As an Advisor, Callie is responsible for providing comprehensive financial planning for our high net worth clients. Managing partner Ken Coleman says, "We were looking to add a proven professional with strong client relationship and comprehensive wealth planning experience to support the firm's continued growth. Callie's experience and skill set were an obvious fit, and we're excited about her contribution to the team."



Michael Kalinoski joined our team in September from PNC Bank, where he served for over two years as a Senior Operations Analyst. As Portfolio Administrator at Fairport, he is responsible for implementing security transactions and maintaining our investment models. Mike is a CFA candidate and member of the CFA Society Cleveland.

Chief Investment Officer John Silvis says, "We are happy to have Mike join the investment team at Fairport. Mike brings a diverse background in operations and security handling from his time at PNC. He has integrated himself into the team and has already proven to be an asset while contributing to the overall investment process."

Welcome to the team, Callie and Mike!

Fraudsters Don't Take a Holiday

Our friends at Charles Schwab remind us that online criminals know we're all busy with year-end deadlines and the holidays—making it the perfect time to strike. Over the holiday weekend they saw an increase in Credential Replay Incidents (CRI) activity in which unauthorized individuals tested login credentials stolen from a variety of sources external to Schwab against Schwab.com. Fraud patterns on the rise include email account takeover, forged letters of authorization (LOAs), like-registration requests and international wire requests. In addition to these standard approaches, Schwab has also identified some instances of attempted ACAT fraud.

Your Fairport team will continue to remain vigilant and evaluate the details, origin and destination of disbursement requests. We will ask more questions if the funds are going to an unknown destination or the transaction is not typical of your disbursement patterns. Please be patient when we verify your email-based requests and know that, as always, your personal security is a top priority.

For more tips on protecting your data and money, visit the News & Insights page on our website.

Year-End Service Requests

We always work to process your service requests in a timely fashion and want to take every measure to ensure your satisfaction during this busy stretch of the year. This is a friendly reminder that our custodians (Charles Schwab, Fidelity and banks) have strict deadlines for year-end service requests including charitable gifts, retirement plan contributions, establishing new accounts and required distributions.

We encourage you to contact your Client Service Manager now to inquire about applicable deadlines and begin the process of charitable gifting, required minimum distributions and any other time-sensitive service requests. Thanks!

Fairport News

Read about our most recent community involvement, accolades, conferences and continuing education.

Ken Coleman was the recipient of the MidTown Cleveland Distinguished Service Award and is a member of the Emeritus Committee consisting of dedicated past Board Chairs and former trustees who support MidTown's vision, mission and goals, assist in its ongoing strategic development and help ensure its long-term sustainability.

Brant Appel and **Paul Zappala** attended a Charles Schwab workshop in Pittsburgh in November entitled "Cybersecurity - A practical approach for strengthening your cybersecurity program."

Peter DeVito was nominated to serve another term as Treasurer of Merrick House. Merrick House is a thriving neighborhood center that engages and educates to empower people in Tremont and the surrounding areas.

Peter DeVito, **Chris Isabella** and **Tom Seifert** attended the Cavitch Familo & Durkin Select Strategies for Insurance & Estate Planning 2016 Seminar on October 29th.

Heather Ettinger and **Andrew Connors** attended Schwab IMPACT in October with over 4,000 financial professionals. With the theme of "Join the Conversation," the conference featured speakers like Malcolm Gladwell, Ian Bremmer, Jeff Gundlach and our 2016 Fairport Night speaker Greg Valliere, as well as plenty of opportunities to network with peers.

Rachel Margulis and **Joyce Zak** attended the FPA fall symposium on October 27th. Rachel also attended the OSCPA Advance seminar on November 2nd.

John Silvis attended an iShares Experience: Advanced Education for RIAs organized by BlackRock in San Francisco at the end of September. At this special two-day event, advisors met with top iShares investment professionals to discuss how to make the most of today's market prospects and build better portfolios for investors. Discussion topics included ways to access investment opportunity globally, generate portfolio income more effectively, manage risks and use technology to deliver information to clients more efficiently.

Paul Zappala attended the Compass Compliance Solutions Conference in Charleston on October 20th.

Partnerships & Presentations

Our women's practice group had a busy fall season with multiple speaking engagements, educational programs and successful collaborations.

Emily Drake and **Heather Ettinger** hosted a Solutions for Women™ luncheon at Shoreby for clients and guests in September. Fairport's trademarked financial literacy program encourages group sharing and covers investment, estate and charitable planning through plenty of examples and anecdotes.

This September, **Emily Drake** and **Heather Ettinger** were the featured presenters at an event hosted by The Women's Endowment Fund and Medina County Women's Endowment Fund of Akron Community Foundation. Virginia Albanese, President & CEO of FedEx Custom Critical, moderated the interactive financial and philanthropic discussion.

Emily Drake participated on a panel moderated by Kaye Ridolfi (The Cleveland Foundation) with Connie Hill-Johnson (Visiting Angels Living Assistance Services) and Caprice Bragg (The Rock and Roll Hall of Fame and Museum) at AFP Greater Cleveland's National Philanthropy Day in early November. Their panel was titled "Women and Philanthropy - The Coming Seismic Shift."



This September, we learned valuable life lessons alongside our 2016 Community Beacon recipient The First Tee of Cleveland. TFTC kids and coaches taught our team about one of their core values - RESPONSIBILITY - on the golf course while **Heather Ettinger** and **Chris Isabella** simultaneously facilitated a discussion with the participants' parents on raising financially responsible children.

Heather Ettinger and **Chris Isabella** presented to parents/alumnae at Laurel School about "Raising Financially Responsible Children." Chris and Heather shared their advice, parental mistakes and successes and answered questions on handling overly generous family members/grandparents, allowance, credit cards and holiday spending.

Emily Shacklett partnered with the YWCA and Gerald Chattman of Buckingham Doolittle in early October to discuss negotiating executive compensation and benefits with local businesswomen. The unique legal/financial presentation covered a laundry list of potential items for executives to negotiate with their employers, as well as advice on avoiding tax-related mistakes.

Newsletter Disclosures

This newsletter represents an assessment of the economic and market environment at a specific moment in time and is not intended to be a forecast of future events or any guarantee of future results. It is for informational purposes only and should not be relied upon as research or investment/financial planning/tax advice. It should not be considered as a solicitation or recommendation by Fairport to buy, sell or continue to hold securities or other investments. Past performance is not a guarantee of future results, and is not indicative of any specific investment. It should not be assumed that the investment process and strategy discussed herein has been or will prove to be profitable. Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

