The Compass

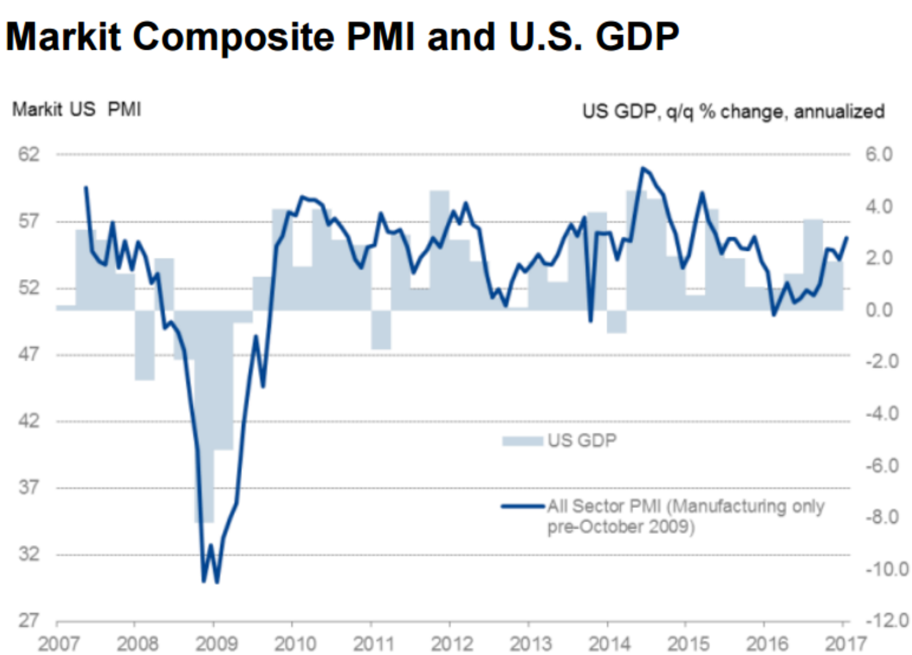
FAIRPORT ASSET MANAGEMENT
A WealthTrust company

Wealth management tips, trends and articles that provide confident navigation for high net worth clients.

February 2017
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 February 23, 2017
John M. Silvis, CFA
Chief Investment Officer

The equity markets have gotten off to a fast start so far in 2017 with the S&P 500 Index up 5.91% year-to-date while the MSCI All Country World Index (ACWI) has notched even bigger gains with a total return of 6.19%. The post-election rally in the equity markets has been fueled largely by an improving economy which started showing signs even before the election and has continued with a string of better economic numbers in the past few months. Sentiment, both on the consumer and corporate side, has also improved driven by the adoption of a pro-growth agenda from the new administration in Washington. The possibility of tax cuts (both on the corporate and the personal income tax rates), less regulation and fiscal stimulus in the form of a new infrastructure spending has helped drive markets to new highs. For now it seems like the markets have embraced the Trump agenda but as we move through the first 100 days, there will be an increasing demand for results in the form of new legislation.



Sources: IHS Markit, U.S. Bureau of Economic Analysis.

The economy remains on firm ground although Gross Domestic Product (GDP) came in a little lighter than expected to end the year, with the fourth quarter growing at 1.9%. Still, the economic signs are pointing to better growth in the current quarter with most sentiment numbers coming in higher than expected since the election. Homebuilders' confidence numbers, along with consumer and CEO confidence readings, have jumped to multi-year highs since the election on hopes of better prospects. We have been watching the GDPNow readings from the Atlanta Federal Reserve, a real-time econometric model which has been one of the most accurate, and it is currently pointing to just under 2.5% for the first quarter. The Markit PMI (Purchasing Managers Index), another widely watched measurement of future growth, reached its highest reading since 2015 in January. Historically, it has been a good predictor of GDP growth (see chart). Overall we think the economy is still growing and should see better growth in the coming quarters. The possibility of a recession remains low in the current economic backdrop.

Within domestic equities, we saw a rotation out of defensive sectors and into the cyclical sectors happen quickly in the later part of last year across the capitalization spectrum. So far this year within the Large Cap asset class, we have seen the rotation stall with Healthcare and Consumer Staples (traditionally defensive sectors) outpacing Energy and Financials year-to-date. We believe this is a pause in a longer term trend as cyclicals should reassert themselves in the coming months. We remain overweight Technology, Materials and Industrials. We have increased our position in Financials which should benefit from higher rates in the coming months, as it's likely the Federal Reserve will raise short term rates throughout the year. Small and Mid Cap stocks should build off their strong finish from last year buoyed by a better economic environment and being insulated from a rising dollar. Small Caps would be the least affected by a border adjustment tax, or BAT, should it find its way into tax bill. Research firm Cornerstone Macro's policy team currently forecasts a less than 40% chance of becoming law.

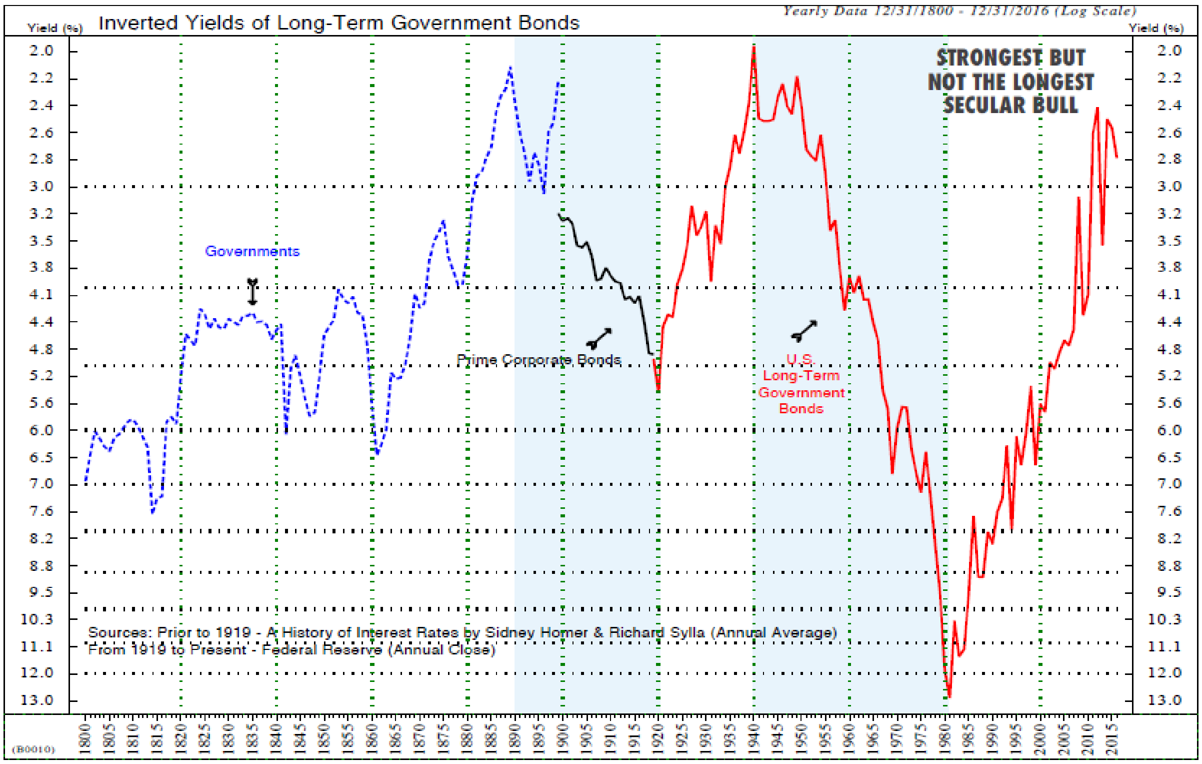
Overseas, the developed markets remain stuck in neutral. The Eurozone saw GDP growth in the fourth quarter at 1.6% while its biggest market, Germany, fared only slightly better at 1.7% on an annualized basis in the fourth quarter. The U.K. has inched closer to formally requesting a departure from the European Union. So far there seems to be little fallout from the Brexit vote last year but things could change once the reality sets in in the coming months and negotiations start. France could be the next geopolitical hotspot as it gears up for two rounds of presidential elections in the spring. There is a rising fear that should one of the opposition parties win, a "Frexit" vote could be coming in the future. That, no doubt, will rattle markets as the vote nears. We remain cautious on European equities but could see prospects brighten after the French elections in the spring.

In the emerging markets, things seem to be taking a slightly positive turn. Equity markets returns for the asset class were one of the best in the fourth quarter of 2016 and have gotten off to a good start this year as well. China seems to be moving past stabilizing and returning to growth. The Bank of China recently raised interest rates for the first time in the current cycle, signaling confidence that the economy is moving in the right direction. Brazil and Russian markets are asserting themselves and have been great investments over the past year. Much can be tied to improving commodity prices, especially the nearly 100% rise in crude prices off the lows last February. We continue to like the emerging markets and could see them benefiting from growth in the U.S., the biggest purchaser of their exports.

While we remain constructive on equities in the intermediate term, we are due for a correction or pause in the coming weeks or months. Timing such moves can be difficult and usually are futile in a secular bull market – in which we believe we are still in the middle innings.

Fixed Income Commentary as of February 24, 2017
Rick D'Amico, CFA
Manager of Investments

After a sharp spike in rates last November, the 10-year treasury has settled into a trading range between 2.30% to 2.60%, currently trading near the low end at 2.32%. The debate continues as to whether or not we are approaching the end of a 35 year bull market in bonds. Since 1800, there have only been 5 secular moves in the bond market (three bulls and two bears).



According Ned Davis Research, Inc.'s technical analysis, a move above 2.74% could signal the end of the 35 year bull market, while a move north of 3.10% would confirm the beginning of a new secular bear. In addition to rising yields, Ned Davis Research Inc., points to three other criteria that could help determine whether or not a secular bear has begun. The first of these criteria, higher inflation, appears to be trending in that direction, while the other two (increased supply and weaker demand) have produced mixed signals of late.

With the overall economy on sound footing, continued strength in the labor market, as well as the expectation that inflation may reach 2.0% sooner than forecast, investors will continue to focus on Fed policy. The current implied probability of a .25% rate increase at the March FOMC meeting has risen to 38%, as derived from the Fed funds futures market. Two important numbers to focus on over the next couple weeks to help determine if a March rate increase is in play are core PCE Inflation (March 1) and the next employment report (March 10). Our base case currently calls for one rate increase in the first half of 2017, with two additional .25% rate increases in the second half of the year.

Considering that we may finally be on the brink a rising rate environment, our return expectations for fixed income remain muted in 2017. Furthermore, valuations across most sectors of the fixed income market appear stretched, with high yield and investment grade credit spreads now bumping up against 20 year lows. Given our current view, we remain underweight duration relative to the benchmark.

Meet David Rubis

We are pleased to announce the addition of David Rubis to the Fairport team. He will be serving clients in the role of Advisor. He joins us from Spero-Smith Investment Advisers/HPM Partners where he worked as a Client Adviser with business development responsibilities. Previous to HPM Partners, he was part of the Global Family & Private Investment practice at The Northern Trust Company in Chicago where he managed a team responsible for complex investment, reporting and planning needs for large families.

David earned a B.S. in Business Finance from Miami University and a Masters of Business Administration with a concentration in Management from North Central College. David and his wife live in Strongsville and have a young daughter. He is actively engaged in the Rotary Club of Strongsville, a Trustee for the Strongsville Education Foundation, and Treasurer for the Polish Veteran's Alliance.

Welcome, David! Click here to learn more about David and the rest of the team.

Identity Theft Prevention and Recovery
To say identity theft victimization is prevalent is an understatement. It is the top complaint the Federal Trade Commission (FTC) has received for the past fifteen years, increasing 47% from 2014 to 2015, and directly related to the increase in tax-related identity theft. The U.S. Postal Inspection Service noted identity theft as America's fastest-growing crime, and last year alone, more than 9.9 million Americans were victims, costing them $5 billion. The Bureau of Justice Statistics reported that in the United States during 2012, the cost of identity theft exceeded all other property crimes combined. Also, the socio-psychological harm to victims can extend to almost everybody the victims encounter, even some family members.

What can you do?

Prevention:
1. Don't carry your Social Security card with you or write the number on a check.
2. Don't over-share on social networking sites.
3. Change your passwords every 60 days.
4. Order a free copy of your credit report (with only the last four digits of your social security number) from at least one of the credit bureaus each year: Experian, Transunion, and Equifax.
5. Only use a secure connection on the Internet when sending credit card numbers or other personal information. The website should begin with "https" instead of just "http," because the "s" means "secure."
6. Do not be tricked into sending personal information to a fake business or someone you do not know. Companies you do business with will not ask you for personal information by email.
7. Password protect your cell phone and other devices.
8. Don't share medical or insurance information by phone or email unless you initiated the contact and know who you're dealing with.
9. Ask your health insurance provider for a record of the benefits that have been paid in your name.
10. File your tax returns as early as possible.
11. Check your Social Security earnings record to make sure no one is using your SSN.
12. Install anti-virus and anti-spyware software to detect unwanted programs.
13. Obtain identity theft restoration insurance. Typically, a very inexpensive (< $50 annually) optional endorsement under a homeowners, condo, or renters policy. "Restoration" meaning not just reimbursing you for covered expenses, but working with you and on your behalf to restore your identity, which can save you significant time and frustration.
14. Utilize a credit monitoring service: **https://www.LifeLock.com; https://www.allclearid.com ; https://www.experian.com; http://www.transunion.com; https://www.equifax.com**

For detailed identity theft checklist on **Prevention**, click here.

Recovery:

1. An ounce of prevention is worth a pound of cure. See above.
2. Report the identity theft to the fraud department one of the credit bureaus: Experian, Transunion, and Equifax.
3. Place a fraud alert on your credit report.
4. Consider requesting a security freeze which prevents issuers from accessing your credit files unless you give permission.
5. After reviewing your credit report, dispute any fraudulent charges and close any accounts that you think have been compromised or opened fraudulently.

For detailed identity theft checklist on **Recovery**, click here.

If at any time you think your information has been compromised or you find yourself the unfortunate victim of identity theft, do not hesitate to contact a member of the Fairport team for guidance.

Sources: FTC Annual Summary of Consumer Complaints, March 1, 2016;
https://postalinspectors.uspis.gov/investigations/MailFraud/fraudschemes/mailtheft/IdentityTheft.aspx;
Business Insider, December 12, 2013; Journal of Accountancy, November 23, 2016.

Fairport News

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

Rick D'Amico attended the Federated Pittsburgh Investment Forum in December, Diamond Hill Capital Management, Inc. Fixed Income Forum in January and the BlackRock Global Investment Outlook Symposium in February.

Emily Drake has been selected as a 2017 Woman of Achievement by the YWCA of Greater Cleveland for her extraordinary career success, community service, mentoring and dedication to the Y's mission of eliminating racism and empowering women.

YWCA President & CEO Margaret Mitchell surprised Emily with the news at an internal Fairport meeting (photos from the "reveal" are below). Please join us in congratulating Emily on this well-deserved honor. We look forward to celebrating with her in May! See the complete 2017 Women of Achievement award recipient list here.

Rachel Margulis has been volunteering as a tax preparer for the Cuyahoga Earned Income Tax Credit Coalition - a free tax preparation service for low and moderate income families. More information on the good work of the coalition can be found here: http://www.refundohio.org/.

Fairport partnered with Thompson Hine's Spotlight on Women initiative in late January for a program entitled "Coming to Terms: Negotiating Executive Compensation & Benefits." Fairport Partner **Emily Shacklett** and Thompson Hine Partner Julia Love shared financial and legal best practices, real world examples and cautionary tales. Best of all, they facilitated a dynamic Q&A with over 30 impressive local women.

John Silvis attended the world's largest exchange-traded funds (ETF) conference, Inside ETFs, in Florida at the end of January. He won the CFA Society Cleveland 2016 forecasting contest, most closely predicting the closing value of the Nasdaq at year-end. John has joined the Professional Advisors Committee for the Catholic Community Foundation.

Joyce Zak has recently earned The Chartered Retirement Planning Counselor℠ designation from the College for Financial Planning.

The CRPC® designation is the nation's premier retirement planning credential. To be entitled to use this mark, Joyce completed the specialized, graduate-level program, passed a rigorous examination and is subject to a strict code of professional ethics.

Congratulations, Joyce! This most recent accomplishment demonstrates your commitment to *continuous improvement* – one of Fairport's core values.

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.