

Nauset Market Commentary First Quarter 2013

Market Performance Recap: Stocks Take Off Again

In a repeat of Q1 2012, global investors chose US stocks as the best relative value over bonds and cash. Defensive sectors led the way as Dow Jones US Total Market Index jumped up +11.0%. The tech-heavy NASDAQ Index increased +8.2%. International stocks in MSCI EAFE Index lagged with a +4.4% gain in Q1. Bonds struggled with Q1 total returns of only +0.3% in Barclays Intermediate Gov/Credit Index.

Economic & Market Discussion: Will Stocks Hit Pause?

As stocks piled up gains in Q1, calls for a market correction have increased, especially by those who claim the fiscal drag of tax increases and lower government outlays will definitely crimp consumer spending. This view holds that lackluster GDP growth, and thus weak corporate earnings, will drag down stocks sooner than later.

However, there is an opposing view that supports further stock gains. Here are the key points:

- Housing up – Home prices and household formations are trending higher in 2013, which correlates with higher GDP.
- Manufacturing rebound – US auto, energy and other sectors are expanding with cheap natural gas, restrained labor costs, low dollar and a healthy replacement cycle.
- Relative value advantage – While stocks are not cheap, they remain the best relative value compared to cash and bonds as long as the Fed keeps rates low.

Our outlook is that US stocks may actually do both – experience downside volatility, while still managing to extend gains by year-end. As such, we will closely track all economic and market data, and adjust as conditions develop. Our current investment strategy focuses on high quality and high dividend US stocks, some growth positions, multi-sector income funds, as well as hedged equity and alternative investments to mitigate risk.

Market Performance	% Change for Periods Ended 3/31/2013				
	First Quarter	2013 YTD	1-Year	3-Year Annual.	5-Year Annual.
Dow Jones US Total Mkt.	11.04	11.04	14.46	13.08	6.48
S&P 500	10.61	10.61	13.96	12.67	5.81
MSCI EAFE – Non-US	4.38	4.38	7.78	1.86	-3.86
BarCap Intermediate Gov't/Credit Bond	0.26	0.26	3.53	4.75	4.61
BarCap Municipal Bond	0.29	0.29	5.25	6.23	6.10
3-Month T-Bill	0.02	0.02	0.08	0.09	0.31