

2013 First Quarter Investment Commentary

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As the fourth month of the New Year draws to a close, we look at stellar progress in the price of equities. In my last letter on January 18th, I wrote, "I have a sense that we are on the verge of a breakout in the values of equities." They came fast and furious. The DJIA reached new highs on fourteen different occasions during in March and April. The S&P 500 did the same on five. The Dow peaked on April 11th at 14,865, while S&P 500 touched its highest level ever of 1,598 on April 30th. Markets experienced a slight pullback in stock prices to a low of 14,537 on the DJIA and of 1,542 on the S&P 500 on April 18th. However, this 2.2% drop was ever so slight on a historical basis and not severe enough to be called a "correction" (a pullback in prices of 10% or more).

Historically, the "weakest" months of the equity markets run between May and October. While no pattern runs forever and this year may confound historical trends, we are inclined to patiently wait for at least one moment of panic when prices will fall significantly before we commit new cash. Then, with eyes wide opened, going against the herd, we will buy.

Since December 31st many of our technology and natural resources positions have fallen in value, while our more industrial, healthcare and financial related positions carried the ball. Dragonwave, EZChip, Finisar and Anadigics, hurt us, but Great Batch, Manitowoc, Alliance Bernstein, Proshares Ultra Financial ETF, Health Management Associates, Vertex, Newport and Wyndham made up for the losses. Great Batch and Manitowoc, for example, were up 28.5% and 31.1% respectively, while Dragonwave was down 51.4%. The technology sector will come to life before the year is out, in our view, and should pick up the ball once the early leaders take breathers.

We had one takeover completed during the quarter: MIPS taken over at \$8.01. Another was recently announced which should close during the second quarter: ABB's takeover of Power One.

Our average return for all accounts increased by 4.6% for the quarter, on pace for an 18.5% annual return. While this is lower than the major equity averages, our average represents a variety of investment objectives and portfolio compositions. Your individual return, as presented on your progress report, is what we want you to focus on. Your progress report is enclosed. Please call should you wish to discuss anything related to your financial program or portfolio.

With the domestic Sequester and all the other worldly troubles ahead, we move into the future. While our U.S. Congress continues to dance around their members ideological positions, our Federal Reserve continues to keep our economy from falling over a cliff. Thank goodness that we have this institution, somewhat free from politics, and those individuals running this shop in place. The world's population surpassed 7,000,000,000 (that's billion) last year. It's expected to increase another 30% over the next 40 years. One who is fearful of holding equities for the long term will miss participating in this phenomenal growth. This is one of my shortest letters. I hope you don't mind its brevity. Until next time, keep well.

Flash: As I complete this letter on May 3, 2013, the DJIA just crossed the 15,000 level and the S&P 500 1,618: Their reach for record highs continue.