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A Contrast in Outcomes
Wall Street vs. Main Street

The Central Banks around the world are being resolute in providing liquidity in the hope it will kick start the global economies. To date it has yet to do so; however, the impact on the world's equity markets continues to be largely positive. Although April's returns were somewhat moderated from prior months, the "less risk-on trade" of large caps, domestic and developed markets had another outstanding month. Small Cap and Emerging Markets were slightly negative for the month, with Emerging Markets posting negative returns year to date. It is still wise not to fight the Fed at this juncture but investors should remain conscious valuations are rising and Central Banks will ultimately need to reverse course to avoid some unintended consequences of this flood of liquidity.

Table I: Global Equity Market Returns -%

	Apr. 2013	YTD
Russell 1000	**1.81**	**12.97**
Russell 2000	**(0.37)**	**11.98**
MSCI- Developed	**4.03**	**8.59**
MSCI- Emerging	**(0.72)**	**(2.63)**
S&P 500	**1.93**	**11.98**

Source: Russell, MSCI and Standard & Poor's

Economy

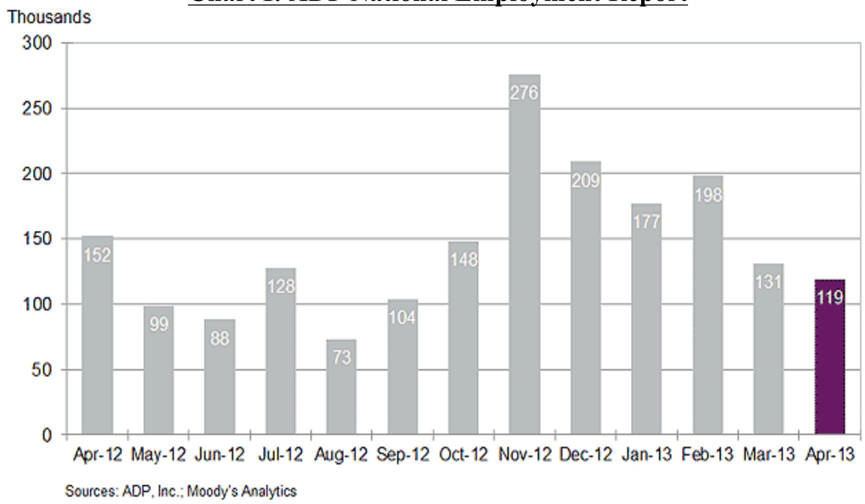
Unlike the investment markets, the global economies are not enjoying the benefits of the central banks' easy money policies. The IMF recently reduced its estimates for global GDP in 2013 to 3.5%, a decrease of 0.2%. This comes as unemployment remains persistently high, not only in the U.S. but also in the rest of the developed world. Eurozone unemployment at the end of March was 12.1%, an all-time high.

The emerging economies are now suffering from higher bouts of inflation despite falling commodity prices. Since year-end gold has declined 17%, copper is down 10% and corn down 8%. Other commodities are currently under similar selling pressure. What may have been more of a surprise is that China's growth slowed to under 8% for the first time in years as Q1 recorded GDP growth of 7.7%. Granted while 7.7% is a long way from economic collapse, it does hint that all is not well in the global economies.

In the U.S., confusion remains the order of the day. The economic recovery limps along in the worst recovery ever as problems mount and the government has become the poster-child for dysfunction. As the government inaction on tax and entitlement reform, budget and spending sanity, and the continued consequences of regulation choking legislation, the economy struggles to find traction. Businesses sitting on trillions in cash remain committed to finding ways to reduce costs instead of hiring new workers.

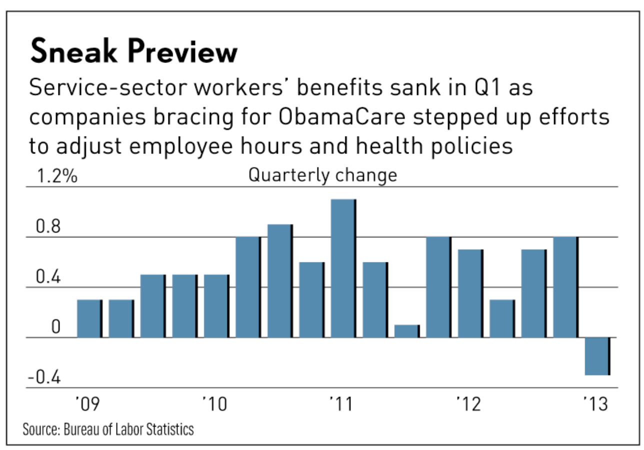
The ADP National Employment Report for April showed a job gain of 119,000 well below estimates of 150,000 and below March figures (See Chart I). These numbers were slightly lower than the BLS April unemployment release, which estimated job creation at 165,000. Revisions to the February and March figures, 332,000 and 138,000 respectively, were much larger than previously reported. The Unemployment rate was reported down 0.1% to 7.5%. In the current edition of "Fun with Numbers", it is becoming quite difficult to reconcile the BLS numbers with other reports. Large jumps in employment would suggest two things: 1) higher GDP growth and 2) higher levels of labor participation. The advance GDP report for Q1 estimated GDP growth of 2.5%, not exactly consistent with over 300,000 new jobs created. Nor is fact that the labor participation rate is 63.3%, still at a 30 year low.

Chart I: ADP National Employment Report



One interesting note from the BLS jobs release is that the average workweek declined 0.2 hours to 34.4 hours. This may be more of a consequence of ObamaCare than the overall economy. As previously mentioned companies are finding ways to further cut costs and many are now making full time workers part-time workers to skate the financial mandate of ObamaCare. The incredulous part is that the one-time economic adviser for President Obama, Jared Berstein, viewed this as a positive event claiming it would be a boom for job growth. What seemed to escape Mr. Berstein is that while taking 40 hours and dividing it up among other workers ignores the fact that it means an accompanying decrease in income and benefits. Chart II below, shows the decrease in the value of benefits to service sector workers as these companies battle to minimize the impact of ObamaCare.

Chart II



Also in conflict with the positive news of the BLS job creation numbers, in the U.S., 1 in 5 are now enrolled in the Food Stamp program. Several years after exiting the recession and with job creation figures on the order of 300,000 to now be experiencing a record level of the population enrolled in the Food Stamp program is utterly bewildering.

What is less confusing is that government spending remains out of control and we have now officially pushed the debt-to-GDP ratio to over 100%. As of the end of March 2013, debt-to-GDP stands at 104.8%.

The Fed's resolute action to keep interest rates near zero has had mixed results for housing. Despite the fact mortgages hover near all time lows, housing has seen limited recovery. Housing Starts rose 7.0% in March while Building Permits declined 3.9%. Existing Home Sales in March declined 0.6% as February figures were revised downward as well. New Home Sales however rose 1.5% led primarily by higher-end homes. At the same time home ownership levels have hit an 18 year low.

With unemployment still struggling to recover it is very unlikely that housing will show major signs of recovery. This path to the American dream for Millenials or Gen Yis fraught with hurdles. Returning home to live with their parents is quickly becoming not only popular action it may be the only action. They face a task of competing for jobs with more experienced Gen Xer's. This likely means lower wages. As they work harder for lower wages they are also faced with the bill of college loans. The average student loan balance is $25,000. This will not only make it more difficult to become a home owner but it will also place taxpayers at risk as the temptation and outcry to bail the Gen Yer's out will come to a head.

As the economy flounders, political tensions remain on high alert. North Korea is still making threats about sending missles to the U.S. Relations with Russia may now be at risk as the blowback from the Boston terroist attack resounds thorugh our intelligence agencies. And the President's phony line in the sand with Syria is increasing tensions in the Middle East. It has been reported that President Assad has used chemical weapons on his own people. In typical fashion, the U.N. first reported that it was the rebels using the chemical weapons then saying no chemical weapons have been used. Evidence on the ground suggests otherwise. The U.S. had its bluff called and as a result Isreal took matters into their own hands and bombed several targets in Syria. Tensions are not likely to subside soon.

Coinciding with this development, Republicans have called for hearings on Benghazi as whistle-blowers are coming forward with accounts that differ substantially from the shifting versions of the adminstration. If there is truth in the accusations that the adminstration downplayed the events, changed talking points and re-buffed calls for rescue attempts, there may be adverse consequences to this adminstration, the economy and Hillary Clinton's 2016 plans.

Markets

The investment markets' upward momemtum has begun to moderate. To date, that does not mean a major sell-off but that caution has begun to slide in the markets. There are factions calling for a continued bull run in equities; however, the historical numbers suggest that the upside from current levels will be limited in the long term.

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Table II: Long Term Returns and Market Valuations

Starting Shiller P/E	S&P 500 (Annualized Forward Returns) 5 Yr.	S&P 500 10 Yr.		Emerging Markets 5 Yr.	Emerging Markets 10 Yr.
<10x	15.1%	14.9%		10.3%	13.9%
10-15x	9.3%	10.6%		19.0%	13.8%
15-20x	6.2%	5.6%		3.4%	7.6%
20-25x	4.0%	1.0%		10.3%	N/A
>25x	0.4%	2.6%		0.3%	N/A

For those unfamiliar with the "Shiller P/E", the traditional, one-year P/E represent what an investor pays for the last years' worth of S&P 500 earnings, a very volatile number. In contrast, the Shiller P/E represents what an investor pays for the last 10 years' average real S&P 500 earnings. The hope is that this is a more stable measure that is more relevant to long-term future stock returns and earnings.

In Table II above, we see the 5- and 10-year returns from the various levels of P/E ratios. The table shows a diminishing upside trend as the P/E increases. Given current levels, the U.S. market is trading at 23.97 times on a Shiller P/E while Emerging Markets are trading 18.41 times. The long term returns for U.S. markets suggests very nominal gains from here. The Emerging Markets show marginally better results in the 5- and 10- year time frame compared to the U.S equity markets.

The typical response to a market that may be experiencing downward pressure is diversification. Unforunately, when the markets come under stress all equity markets tend to converge. In Table III, we see the correlation of the traditional markets during the Tech Bubble and the Great Recession. In hindsight, it is obvious, traditional equity markets offer nowhere to hide. The traditional fixed income markets were less correlated and in some pairings, negatively correlated to the equity markets. That's the good news as one prepares to reduce portfolio risk; however, in a zero interest rate environment, yields today offer a negative real return.

In contrast, alternative assets such as hedge funds and private equity, commodities and real estate did offer investments demonstrating low correlations to the more traditional asset classes. Poor economic growth, lackluster bank lending and distressed real estate markets are presenting investors with attractive growth and income opportunities, with favorable risk/reward attributes.

It is quite important that investors remain diligent to protect capital from the poor risk/return profile of the public markets. As the risk intensifies and the magic of the Fed slowly evaporates, it will be difficult to have an orderly exit. The intrisic values of private invesetments, commodoities and real estate will be less subject to pressured selling.

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Table III: Markets Under Stress

Technology Bubble Bursting (2000-2002)

	LC Stocks	MC Stocks	SC Stocks	Int'l Stocks	/I Stocks	Corp FI	Treas FI	HY FI
LC Stocks	1.00							
MC Stocks	0.89	1.00						
SC Stocks	0.80	0.93	1.00					
Int'l Stocks	0.84	0.89	0.82	1.00				
EM Stocks	0.82	0.85	0.81	0.77	1.00			
Corp FI	-0.16	-0.11	-0.04	-0.09	0.00	1.00		
Treas Fi	-0.61	-0.56	-0.46	-0.47	-0.47	0.75	1.00	
HYFI	0.56	0.64	0.64	0.51	0.75	0.38	-0.18	1.00

The "Great Recession" (2007-2009)

	LC Stocks	MC Stocks	SC Stocks	Int'l Stocks	EM Stocks	Corp FI	Treas FI	HY FI
LC Stocks	1.00							
MC Stocks	0.97	1.00						
SC Stocks	0.95	0.94	1.00					
Int'l Stocks	0.91	0.93	0.83	1.00				
EM Stocks	0.79	0.87	0.72	0.94	1.00			
Corp FI	0.53	0.56	0.44	0.70	0.64	1.00		
Treas Fi	-0.01	-0.08	0.01	0.12	-0.05	0.51	1.00	
HYFI	0.72	0.81	0.68	0.73	0.78	0.60	-0.24	1.00

Sources: Blackrock. LC represented by S&P 500, MC represented by S&P400 Mid Cap, SC represented by S&P 600. Int'l represented by MSCI EAFE, EM represented by MSCI Emerging Markets, Corp represented by Barclays Capital Credit. Treas represented by Barclays US Treasury and HY represented by Barclays US High Yield. Technology Bubble September 1, 2000-September 30, 2002. The Great Recession November 1, 2007-February 28, 2009

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Market Statistics

As of April 30, 2013

% Returns	Apr.	YTD
S&P 500	1.93	12.74
MSCI-EAFE	4.03	8.59
MSCI-Emerging	(0.72)	(2.63)
Russell 1000	1.81	12.97
Russell 2000	(0.37)	11.98
FTSE/NAREIT	5.80	14.99

	Apr-13	Dec-12
Gold	$ 1,475.58	$ 1,675.80
Oil	$ 93.12	$ 90.80

Interest Rates %

Discount rate	0.75
Prime rate	3.25
Fed Funds rate	0.17

	US Treas %	Libor %
1mo		0.20
3mo	0.08	0.28
6mo	0.11	0.43

	US Treas %	Muni %	Tax-Equiv %
2yr	0.22	0.35	0.49
5yr	0.68	0.77	1.07
7yr	1.11	1.18	1.64
10yr	1.70	1.75	2.43
15yr	2.00	2.26	3.14
30yr	2.88	2.97	4.13

28% tax rate

Economic Data

	Period	Data	Previous	Data
New Housing Starts	Mar.	1,036,000	Feb.	917,000
GDP	1Q 2013	2.50%	4Q 2012	0.40%
Jobless Claims- 4wk avg.	20-Apr	357,500	6-Apr	358,000
Disposable Personal Income	Mar.	0.2%	Feb.	1.1%

Federal Budget

	FY 2012-13	
Federal Deficit FY est. (tril$)	$0.98	
	30-Mar-13	Jan.-2010
Treasury Gross Public Debt (bil$)	16,839.40	12,357.14

* SAAR =Seasonally Adjusted Annual Rate

The data contained in this commentary has been obtained from sources that are believed to reliable but its accuracy and completeness are not guaranteed.

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