Investments & Wealth Management **April, 2012**
By: Scott Walker, CFP®

The first quarter went well with our average client account posting a gain of 5.6% net of fees. Those with a more aggressive stance posted higher returns as equities handily outperformed fixed income. Many stocks are now near 52-week highs, so it would not be unusual to see prices temporarily pull back to consolidate the gains. There are always macro concerns like the European debt issue with Spain now making headlines, or Middle East tensions that flare up occasionally and torpedo stocks, but there are many strong fundamental reasons to continue to own equities. Those include an accommodative Fed, low interest rates, strong corporate balance sheets, revenue and earnings growth, along with dividend increases to fight the eroding effect of inflation on your purchasing power.

Stock Sectors - Technology and financials were the top performing sectors in the first quarter. The mobile internet is exploding with the proliferation of smart phones and tablets. Riding the wave, **Apple** was up an astounding 48% last quarter. The company will begin paying a dividend in the July quarter and also announced a $10 billion stock buyback. It's hard to chase a runaway freight train, so we will patiently wait for a pullback to supplement our position. **Qualcomm** makes chips that power mobile devices and also holds valuable wireless patents that produce a steady royalty income stream. For more risk tolerant accounts we sold **Polycom** and swapped into **Ubiquiti Networks**. This company went public last year with a young hard charging CEO who came from Apple. They manufacture competitively priced wireless gear and are seeing tremendous sales growth from the emerging markets. Following last quarter's earnings miss, we cashed in the profit on **Google** and will look to redeploy in a more favorable pricing environment.

Financial stocks were the worst performing sector in 2011, so we're seeing a reversion to the mean with big banks showing some of the best gains this year. The Fed stress tested the banks recently and our holdings (**JP Morgan Chase, Wells Fargo, and BofA**) all passed with flying colors. They are all still digesting their mortgage and foreclosure issues in conjunction with a more strict regulatory environment, but the worst appears to have passed.

Consumer staples and energy lagged last quarter, but we are maintaining our positions in **Proctor & Gamble**, **Chevron**, and **ExxonMobil**. We sold **Ultra Petroleum** to cut the loss as the natural gas glut and weak pricing environment caused us to alter our thesis on this company.

Utilities were mixed, with **Sempra** posting a 10% gain last quarter, while **Exelon** was -8.3%, and **NRG Energy** -9.8. There is an opportunity cost to holding stagnant assets with a bad chart when the general market and other stocks are popping, so Exelon and NRG are gone. We will look to add to our local provider when it dips in price.

Gold - With stocks rallying, the price of gold has come down which gave us an opportunity to supplement our position. We purchased the **iShares Gold Trust** which is an ETF that owns gold bullion and trades at roughly 1/100th of the price of an ounce of gold. This is the same type of vehicle as the **SPDR Gold Trust** which is priced at 1/10th of the price of gold. The most precious of metals acts as portfolio insurance against the debasement of paper currencies from governmental deficit spending and increasing debt loads. Governments cannot devalue gold by printing more money. Negative real interest rates (nominal rates minus inflation) are also bullish for gold. Gold mining stocks are much more volatile versus IAU or GLD, and **Barrick Gold** had broken support on above average volume, so we cut our loss at a manageable 8%. We can always buy back at a lower price.

Bonds - We own fixed-income securities for regular income payments and to counter balance the inherent volatility of our stock positions. When stocks are doing well, the raciest types of bonds also tend to outperform. It was no different last quarter with emerging market and high yield junk bonds leading the pack. We were positioned well with **Templeton Global**, and a new purchase of the **Loomis Sayles Bond Fund**. We have owned Loomis in the past and were happy to reacquire shares at a depressed price. Both funds have annualized distribution yields in the 5% range. In addition, we bought **SPDR Barclays Capital High Yield Bond**, a low-cost ETF with a monthly dividend and a juicy 7.2% yield. Mortgage-backed bonds have suddenly become the rage and are likely to stay in favor with the Fed actively supporting the market. We've been participating for over a year via the **Doubleline Total Return Bond Fund**. Lead manager Jeffrey Gundlach and his L.A. based team are masters at navigating this sector. As mortgage rates have come down, the current yield has declined to a still respectable 6.5%. Municipal bonds are an excellent tool to generate tax-free income for higher bracket taxpayers. New supply continues to come to market as municipalities refund older higher yielding bonds and seek funding for various new projects. One would think that would depress prices, but demand has remained strong with the threat of higher income tax rates next year. In addition, there is a new additional 3.8% Obamacare investment income surtax scheduled to take effect in 2013 for high income earners. Municipal bond interest is exempt from this new tax.

Estate Planning - Have you reviewed your will, trust, or beneficiary designations lately? Many elderly clients have found it beneficial to add their successor trustee as a current co-trustee. This makes for a very smooth transition when the grantor is unable to manage the trust any longer and can be accomplished with a simple trust amendment. We encourage clients to introduce us to their children and heirs so we may get to know each other prior to a life changing event. We are happy to assist in the transition, share our management philosophy and answer any questions for them about the investment world.

Income Tax / Retirement Planning - For those still working, maximizing your annual contribution to a tax-favored retirement plan is critical. Most employers offer 401k plans which allow employees to contribute pre-tax dollars, which grow tax-deferred. Individual 401k plans are the preferred vehicle if you are self-employed with no employees. Also, a health savings account provides a method to fund medical costs with pre-tax dollars when coupled with a high deductible Health Insurance Plan. Deductible IRA's are still valid for those with earned income and not covered by an employer plan. If you don't qualify for a deductible IRA, you may still be entitled to make a Roth IRA contribution of $5,000 per year, plus $1,000 if age 50 or over. The idea with all these plans is to build wealth in a tax-favored environment to create a retirement income stream that enables you to enjoy the latter years of life.

If you have any questions or comments regarding your portfolio, please let us know. Thank you for your continued trust and confidence, we are working hard to continue to earn it.