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Forza Investment Advisory, LLC

Strengthening Our Clients' Financial Lives

FROM THE DESK OF BOB CENTRELLA, CFA January 13, 2013

Forza Investment Advisory Year-end 2012 Investment Letter

Following are my comments on the year just ended and 2013. Since I talk each week in my Newsletter, I'll keep it to one page☺ 2012 was an interesting year to say the least. 2013 is off to a good start with the Cliff deal partially out of the way and company earnings reports about to take over.

The fourth quarter and the year ended with a bang as investors anticipated a Fiscal Cliff deal and the market surged on the last day of trading and so far into the New Year. Although it turned out to be a good year for markets around the world, in the US the majority of the gains came in the first quarter when the S&P 500 returned over 12%. For the remainder of the year, it was a challenging period to invest as investors dealt with continuing drama out of Europe, a struggling Chinese economy and ongoing sluggishness here in the US. As the year unfolded the US election took center stage and then the fiscal cliff drama as the year ended. In Europe and elsewhere, financial markets calmed as the year unfolded and equity markets moved higher in the second half of the year. So as the year ended, the S&P finished the year with a 16% return while Global markets actually finished slightly higher at around 17%+.

Looking ahead, I am cautiously bullish as I feel that the US economy can start turning higher and companies may be able to grow revenues and increase profits at a higher rate than the last year. Europe is still in recession but may have hit bottom and could improve slowly. China also seems to be rebounding and growth in China will help the rest of the world. 2012 was marked by coordinated easy monetary policy around the world and this is likely to continue in 2013. If the Fed continues to pump liquidity into the US economy and interest rates (Treasury Bonds) stay in a modest trading range, then that should be good for equity markets assuming troubles don't arise elsewhere in the world. I'd like to get through the first quarter earnings cycle to hear what companies are saying about business prospects. I anticipate that cyclical growth companies may do better this year such as Industrials, Materials and Technology while defensive sectors like Consumer, Telecom and Utilities may lag a bit. So I will look to add more exposure to these sectors along with increasing the international equity exposure. Although I continue to favor large caps I also feel mid- and small-caps caps could continue to do well as Investor risk appetites continue to increase.

On the fixed income front, 2012 was a mixed year with US Bonds underperforming most categories. 2013 could be a tough year as the great bond bull market appears a bit long in the tooth. Recently the Fed tied its outlook on monetary easing to getting to an unemployment rate of 6.5%. So, with the rate now at 7.8% there is some runway for rates to stay at current levels, but absent a macro shock somewhere in the world, it seems unlikely that bond prices will rise as the unemployment rate falls. With Treasury yields low, it will be tough to make a decent return on US Bonds. So I favor a diversified strategy in fixed income with exposure to short and intermediate maturity Corporate bonds, TIPs, some long term corporate bonds, high yield bonds, foreign and emerging market bonds and preferred stock holdings. Since the muni bond exemption was not altered I like the muni sector to buy as well for taxable portfolios.

The next big deadline for politicians is March 1st, so unless progress is made on government spending cuts and increasing the debt ceiling, the market could get volatile to the downside as we approach that date. Therefore, although we anticipate making some portfolio changes to less defensive sectors and more cyclical stocks, we will do so with an eye on what's going on in Washington and the economy. Hopefully they don't keep us hanging until the very end again and economic numbers improve throughout the year.

Have a great 2013. Remember, I am always available at 908-344-9790 to talk about the markets or any other specific questions about the portfolio. Ciao!