Marathon Investment Management

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The TINA Market

Equities –

It seems like ages ago, but we do recall 2013 started with a possible hurdle over the 'fiscal cliff' into a potential financial abyss that no one could visualize. Remember, it was only a month and a half ago that there was fury and panic of sequestration; a term many had to refer to the dictionary to understand! In March came the latest crisis in Europe with Cyprus and the extortion of bank deposits. Finally, we have the young 30-year-old dictator Kim Jong-un threatening half of the U.S., South Korea, Japan, and anyone else willing to listen to him. Along with mediocre growth, stubborn unemployment and underemployment, as well as growing debt as far as the eye can see, the Standard and Poor's 500 managed to close the first quarter of 2013 at 1,569.19 – a record high, up 10% in just three months! The other major indices finished the quarter with even more impressive numbers[1]:

Index	Close	3-Month % Change
Dow Jones Industrial Average (DJIA)	14,578	11.3%
Total Stock Market (TSM)	16,545	10.6%
NASDAQ Composite (tech weighted)	3,267	8.2%
S&P 500	1,569	10.0%
S&P 400 (mid-cap)	1,153	13.1%
Russell 2000 (small-cap)	951	12.0%

As is typical in market recoveries, small-cap issues out-performed large-cap. International equity markets realized generally modest returns, except for Japan, whose new government under Prime Minister Shinzo Abe, is adapting the 'easy-money' Keynesian policies of the U.S. Consider the following of selected country-by-country stock market performances[2]:

Country BETTER Performances		Country WORSE Performances	
Kenya	27.4%	Kazakhstan	-17.1%
UAE	22.0%	Ukraine	-17.0%
Nigeria	19.1%	Cyprus	-16.5%
Philippines	18.1%	Czech Republic	-14.2%
Iceland	17.2%	Egypt	-11.2%
Argentina	16.6%	Poland	-9.9%
Thailand	15.9%	Greece	-9.5%
Indonesia	14.5%	South Africa	-8.9%
Bulgaria	13.5%	Luxembourg	-8.7%
Vietnam	13.3%	Hungary	-8.6%
Ireland	12.9%	Italy	-7.2%
Mauritius	11.9%	Spain	-5.4%
Estonia	11.6%	India	-4.7%
Japan	11.3%	China	-3.4%
Serbia	11.3%	Russia	-3.4%

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Country BETTER Performances		Country WORSE Performances	
Switzerland	10.1%	South Korea	-2.7%
Sweden	9.5%	Brazil	-1.1%
Latvia	9.4%	Germany	0.2%
Turkey	8.5%	Canada	0.3%
Australia	7.3%	France	0.8%
Israel	6.8%	U.K.	2.3%

As we have seen before, many of the geographic areas that have suffered the most can have the most dramatic recoveries. Japan's central bank announced its new policy to reflate its economy and allow for up to a 2% inflation rate. The Japanese Yen, measured against the dollar, tumbled 7.94% in the first quarter. The result, promoted by the new central bank governor, Haruhiko Kuroda, is to stimulate exports at more competitive prices and to end Japan's decade-long deflation[3].

On a daily basis we track two broad-based global indices: the Dow Jones Global Index (with U.S.) up 6.3% and the same excluding the U.S. up 3.1%, for the quarter. Randall Forsyth of Barron's dubbed the first quarter as a TINA market – suggesting "There Is No Alternative" to U.S. stocks as a place to store your money[4]. Increasing debt continues to plague most of Western Europe; the U.K. faced a falling Pound Sterling; France's new prime minister and president faced strong opposition to their highly progressive tax policies, and Italy's inconclusive elections of February, along with unresolved economic challenges kept Italian stocks on the defensive – which was the case for most of Western Europe.

Debt –

Last quarter, high valuations and low yields remained steady for domestic debt. In fact, after some weakness mid-quarter, we saw high quality debt prices rally in March along with domestic equities.

Treasuries rose for a third week ending with the March quarter-end, amid concern that Europe will struggle to contain its sovereign debt crisis even as Cyprus banks reopened for business. Emerging market debt, both, sovereign and corporate, made strong gains as investors continued to search for attractive yields worldwide. The BRIC countries – Brazil, Russia, India, and China – sold a record $176.36 billion of bonds in the first quarter, up 17% from last year[5]. The average yield of intermediate-term emerging market debt is 5-6% a historic low.

After hitting a record high price and low yield of 1.39% last summer, the 10-year Treasury closed March with a miserly return of 1.86%. Domestic debt followed suit[6]:

Bond	3/27/2013 Yield %	12/26/2012 Yield %	3/28/2012 Yield %
6-month CD	0.10%	0.10%	0.22%
1-year CD	0.13%	0.13%	0.34%
5-year CD	0.70%	0.70%	1.15%

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Bond	3/27/2013 Yield %	12/26/2012 Yield %	3/28/2012 Yield %
3-month T bill	0.08%	0.08%	0.08%
1-year T bill	0.12%	0.15%	0.17%
5-year T note	0.77%	0.77%	1.03%
10-year T note	1.86%	1.77%	2.20%
30-year T bond	3.10 %	2.95%	3.31%
GNMA 5.5%	1.93%	1.79%	1.37%
FNMA 5.5%	1.80%	1.82%	2.07%
A-rated Corporate 25- 30-year	4.06%	3.86%	4.39%
A/AA rates G.O. municipals 1-year	0.17%	0.21%	0.19%
AAA-rated G.O. municipals 5-year	0.89%	0.90%	1.07%

Commodities –

The 'TINA' market influenced the various commodity markets as well. The Dow Jones – UBS Commodity Index fell 1.1% for the first quarter[7]. Weak demand from China, uncertain growth in the U.S. and Europe, a strengthening U.S. dollar relative to other currencies, and low inflation all contributed to a blazé performance of most commodities. "Alternative" investments – the rage of the last few years – have been forgotten. The focus by institutions and more so by individual investors is on equities and no longer on gold and silver. Such was evidenced as gold finished the quarter down 4.8% at 1,594.80 per troy ounce[8]. The most recent decline of precious metals seems to be due to financing the bailouts of banks in the numerous countries facing debt crises. As of January 2013, the following table reveals major holdings of gold by nation[9]:

Country	Metric Tons
U.S.	8,133
Germany	3,391
IMF (International Monetary Fund)	3,814
Italy	2,451
France	3,435
China	1,054
Switzerland	1,040
Russia	969
Japan	765
Netherlands	612
India	557
ECB (European Central Bank)	502

Among agricultural commodities cotton appreciated the most during the first quarter – up 18% on strong U.S. exports[10]. Weak demand moderated crude oil prices – up 5.85% to $97.19/barrel. Due to a prolonged winter season, natural gas rose 18.44% to $3.969/mm btu.

Retirement Issues –

In previous quarterly letters we have emphasized various challenges facing the 'boomer' generation, specifically retirement and how to pay for it. A Rasmussen study last year showed that more than one-third of Americans near retirement age expect they'll never retire[11]. Among U.S. workers, 57% said that they have less than $25,000 in total household savings and investments, excluding the value of their home[12]. As 10,000 'baby boomers' are now retiring daily, this issue is more than critical. Yet, according to another study, just 23% of workers and 28% of retirees reported that they had obtained investment advice from professionals such as our staff here[13]. As a financial planning organization, we are responsible for preparing clients for a future that offers both freedom and choice. What kind of choices and freedoms? Here are a few questions to consider…

1. Are you ready to retire?
2. What does retirement mean to you? Recreation, a new career, charitable work, etc.?
3. Can you afford to retire?
4. When should you apply for Social Security?
5. How should you take your pension?
6. What should you do with the money in your company savings plan?
7. When do you have to take money out of your IRA?
8. How should you invest during retirement? Does the 4% rule apply?
9. What should you do to prepare for an illness that requires long-term care? What are and what will be your health care costs?
10. Where do you want to live after you retire?
11. How should you arrange your estate to save on taxes and avoid probate?
12. How can you age successfully?

Retirement planning ought to start as early as possible in life as options narrow with age. If you have not established a personal plan that addresses the above issues, call us!

On behalf of the staff, I wish you an enjoyable and successful spring!

Yours,
George Gumbiner

[1] Wall Street Journal, "Major U.S. Stock-Market Indexes," pg. C4, 4/1/13
[2] Wall Street Journal, "Country-by-Country Derby," pg. R2, 4/1/13
[3] Investor's Business Daily, "Japan Outpaces World Funds," pg. A8, 4/3/13
[4] Barron's, "Don't Worry, Be Bullish," pg. 5, 4/1/13
[5] Wall Street Journal, "Debt Investors Venture Far," pg. R3, 4/1/13
[6] The Value Line Investment Survey, "Selected Yields," pg. 1033, 4/5/13
[7] Wall Street Journal, "Investors Check Out of Commodities," pg. R3, 4/1/13
[8] ibid
[9] Investor's Business Daily, "Gold Price Dives," pg. A9, 4/15/13
[10] Wall Street Journal, "Investors Check Out of Commodities," pg. R3, 4/1/13
[11] www.moneynews.com, "Poll: Third of Americans Fear They Will Never Retire," 8/31/12
[12] Investment News, "Sound the Alarm on Retirement Crisis," pg. 8, 3/25/13
[13] ibid