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Insight

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Wealth Management Commentary

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Fourth Quarter Market Snapshot

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Amid reduced fears of an economic and currency collapse in Europe, European and emerging markets stocks staged a strong comeback in Q4. Here's a snapshot of how various asset classes performed during the quarter and for the year through December 31, 2012.

4th Quarter, 2012 Market Performance

MSCI EAFE	6.6%
MSCI Emerging Markets	5.6%
DJ Global Real Estate	5.0%
Russell 2000	1.9%
Barclays US Aggregate Bond	0.2%
S&P 500	-0.4%
S&P GS Commodity	-3.3%

Year-to-Date, 2012 Market Perfomance

DJ Global Real Estate	26.5%
MSCI Emerging Markets	18.2%
MSCI EAFE	17.3%
Russell 2000	16.3%
S&P 500	16.0%
Barclays US Aggregate Bond	4.2%
S&P GS Commodity	0.1%

Source: Morningstar Direct and Bloomberg. Returns are index returns only, and therefore do not reflect fund manager fees or Aspiriant fees.

If the financial markets dislike uncertainty, then the fourth quarter was destined to be a difficult one. To highlight a few of the many uncertainties that equity markets wrestled with during the quarter:

- The US presidential election and the potential for going over the "fiscal cliff" drove market sentiment throughout the quarter,
- Challenges in Europe continued, with the euro zone economy in recession and, due to the success of stop-gap measures, with minimal progress toward resolving the region's fundamental problems, and
- China completed a once-in-a-decade change in leadership, raising concerns about future economic policy and China's role as the engine of economic growth.

Despite this perilous backdrop, global equity markets generated strong returns for the quarter, topping off a very strong year that saw double-digit returns for all public equity asset classes. There was no clear catalyst for this strong performance; in fact, the global economy didn't look all that different from 2011, a year that saw disappointing investment returns. But, amid the continuing anemic growth, there has been a steady stream of positive developments – clear indications that the US housing market has turned the corner, improving credit conditions, and concerted action in Europe to stabilize the debt crisis, to name a few. These incremental improvements are all important milestones on the road to recovery and markets responded accordingly.

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The 4.2% return of the US Aggregate Bond Index in 2012 masks very strong performance of Aspiriant's preferred municipal bond implementations, which significantly outperformed the index's performance without taking materially more credit or duration risk. Relatively high yields in the municipal bond market are slowly attracting more investors, but we still see plenty of opportunities for attractive risk-adjusted returns, especially as the economy continues to slowly heal.

For the last few years our view has been that the global economy will experience years of slow growth, as the economy works off the excesses of the real estate and debt bubbles. This expectation has proven to be largely correct. Going forward, indications are that the global economy will likely continue to experience weak growth, macroeconomic uncertainty and periods of heightened volatility. In our view, though, many of the fundamental economic changes needed to set the stage for a more substantial recovery have already occurred… US banks and consumers have made a lot of progress with deleveraging, corporations have large stockpiles of cash available to invest, and inflation is tame, to name a few of the factors supporting a recovery.

Political considerations are now largely driving the uncertainty in the global economy. Some of the biggest concerns weighing on the market include:

- The evolving debt crisis in Europe, where policymakers have taken sufficient steps to ward off a disaster scenario, but not nearly enough to resolve the region's underlying problems,
- The need for the US to address its budget deficit and public debt, in a polarized and distrustful political climate, and
- Instability in the Middle East, where a conflict with Iran could result in an oil supply shock.

The problem with politics, of course, is that it's inherently unpredictable, and markets have a tendency to react (overreact?) swiftly and severely in the face of uncertainty and fear. Substantial progress resolving these political uncertainties, along with continued improvement in economic fundamentals, could spur markets significantly higher in 2013, but we suspect that any progress will continue to be incremental and hard won.

In this environment, it is easy for investors to become distracted from the pursuit of their long-term objectives through a purposeful, long-term investment strategy, and the year 2012 clearly demonstrated the wisdom of patiently sticking with a thoughtful long-term plan. As advisors, it is especially important for us to focus on the long-term while being cognizant of shorter-term risks and responding to them as appropriate. We continue to work on risk management solutions and expect to implement significant changes this quarter.

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