QUARTERLY MARKET COMMENTARY: 2012-Q4

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First of all, we would like to wish everyone a Happy and Prosperous New Year! After an eventful year, the Dow Jones Industrial Average closed out 2012 near our year-end target of 13,100. As you recall, our target was reached within the first quarter of 2012 but it did not deter us from sticking to our original figure. After the vote in Congress to avoid the “fiscal cliff”, the market’s immediate response has been positive as we enter 2013. The need to increase tax revenue was accomplished by raising taxes on individuals at higher income levels but, without spending cuts, the plan to attack our national debt does not have much of a foothold.

The vote on much needed spending cuts will occur 2 months from now. Even though spending cuts were not defined by year-end there may be an advantage to the timing of discussions later in the 1st quarter. The economy may be in a better position to withstand such spending cuts at that time. We continue to see signs of stability within the job market even though there is plenty of room for improvement. We are also seeing some positive preliminary results from China due to the implementation of their stimulus package resulting in some indications of strength in the pricing of basic materials.

As we proceed through 2013, we will continue to focus on job creation within the private sector. Improvement here will not only help the economy grow but will also create a larger tax base. Another factor which has not been mentioned is the possibility of a spike in tax revenue due to year-end sales of highly appreciated securities in anticipation of an increase in the taxation of capital gains. This same increase will also apply to dividends but should not have a major impact on decisions to purchase dividend yielding stocks.

This brings us to our 2013 year-end DJIA target which is 13,800. Projected returns may not be cause for celebration but downside risk appears to be more stable. We do expect earnings projections to stabilize, an improvement from the current outlook for many companies where earnings estimates for the following fiscal year are lower than the current fiscal year. Many of our client portfolios have remained balanced due to uncertainties associated with prior years but there is a high probability of slight adjustments towards more equities this year for portfolios where parameters allow. As mentioned in a prior commentary, another transition we are expecting in the future is the replacement of certain dividend yielding stocks with stocks (w/o dividends) that have greater appreciation potential tied to economic growth.

At this time, we are extremely excited to announce the addition of Ross Muldoon to our firm. As Director of Portfolio Mgt Operations, he will continue to improve all aspects of our investment process including Research & Analysis and the monitoring of portfolios. His addition to our firm is consistent with our commitment to our clients and the strengthening of our infrastructure. Please feel free to contact Leslie or Ross at our office for any servicing issues and portfolio questions if you are unable to reach your consultant. If you haven’t already done so, please visit our website, **www.ellisinvestmentpartners.com.**