Washington Crossing Advisors

Portfolio Comment

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About Washington Crossing Advisors
WCA strategies are offered through the Stifel Score Program (Research-Driven Portfolios). The management team has worked together for the past 20 years as market strategists and portfolio managers.

About Stifel
Founded in 1890, Stifel is one of the leading financial services firms in the U.S., providing full-service brokerage and investment banking services. Stifel is a leading underwriter and advisor for companies and a top provider of trade execution and securities distribution with nationally recognized research and a suite of asset management strategies.

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A BROADER VIEW OF MARKETS

The first half of the year saw stocks move higher, led by domestic shares, while bonds, cash, and commodities (which typically do not move in lock step with stocks) generally lost ground.

U.S. stock markets moved higher in anticipation of higher growth and profits down the road. Although growth estimates are being cut for the current quarter and earnings are up only 1% over last year through the first half, U.S. stock averages were up 14% as investors became more willing to take on greater risk. Stocks can move higher than earnings for a while, but not over the long haul. Earnings growth must reaccelerate for stock values to maintain their moorings with underlying fundamentals. The market is expressing its optimism that profit growth is about to accelerate.

Away from stocks, markets saw challenges as the Fed alluded to fewer asset purchases and interest rates and the dollar moved higher. Returns in other markets ranged from -27.5% in the case of gold to +2.7% in the case of foreign stocks. A diverse base of assets, such as those represented by the HFRX Global Hedge Fund index, logged a 3.2% return for the first half — 1.5% higher than the rate of inflation.

Market Performance
First Half 2013

Asset Class	Total Return
Aggregate U.S. Bond Market	-2.5%
Investment-Grade Corporate Bonds	-4.6%
REITs	+4.5%
U.S. Stocks	+14.3%
Foreign Stocks	+2.7%
Emerging Market Stocks	-12.1%
Commodities (CRB Index)	-6.6%
Gold	-27.5%
Global Hedge Funds	+3.2%

Source: Bloomberg

There is clearly a hopeful aura in the air these days. If the recovery is to gain momentum from here, it will need to be accompanied by growing confidence, which leads to investment, employment, income, and profits. The dialing back of government spending, higher taxes, and potentially less of a push from the central bank make more private sector investment all the more necessary at this time. Investors are once again funneling money into the stock market and out of bonds, resulting in falling risk premiums and higher stock values. Bonds, foreign assets, and commodities are lagging as investors step up their appetite for risk.

DEFINITIONS AND DISCLOSURES

Aggregate U.S. Bond Market (Barclays U.S. Aggregate Index) – Measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS.

Investment-Grade Corporate Bonds (Barclays U.S. Corporate Bond Index) – A broad-based benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers that meet specified maturity, liquidity, and quality requirements.

When investing in bonds, it is important to note that as interest rates rise, bond prices will fall.

REITs (Dow Jones U.S. Real Estate Index) – Measures the performance of the Real Estate industry of the U.S. equity market, including real estate holding and developing and real estate investment trusts (REITs) subsectors. The index is a subset of the Dow Jones U.S. Financials Index and is capitalization-weighted.

When investing in real estate companies, property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance.

U.S. Stocks (Russell 3000 Index) – Composed of 3,000 large U.S. Companies, as determined by market capitalization. This portfolio of securities represents approximately 98% of the investable U.S. equity market. The Russell 3000 Index is comprised of stocks within the Russell 1000 and the Russell 2000 indices.

Foreign Stocks (MSCI EAFE Investable Market Index) – MSCI EAFE International Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets excluding the U.S. and Canada. Used as a proxy for "developed foreign."

Emerging Market Stocks (MSCI Emerging Markets Index) – A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. Used as a proxy for "emerging markets."

There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries.

Commodities (S&P GSCI Commodity Index) – A composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities.

The risk of loss in trading commodities can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

Global Hedge Funds (HFRX Global Hedge Fund Index) – An asset-weighted index based on the distribution of assets in the hedge fund industry and designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies, including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event-driven, macro, merger arbitrage, and relative value arbitrage.

Investors should be aware that hedge funds often engage in leverage, short-selling, arbitrage, hedging, derivatives, and other speculative investment practices that may increase investment loss. Hedge funds can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and often charge high fees that can erode performance. Additionally, they may involve complex tax structures and delays in distributing tax information. While hedge funds may appear similar to mutual funds, they are not necessarily subject to the same regulatory requirements as mutual funds.

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