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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.

### FUNDAMENTALS SLIP IN MARCH

March economic data is disappointing so far, but far from recessionary. Last week's retail sales report for last month was -0.1% compared to an expectation for a +0.3% increase and last month's gain of 0.4%. Taken by itself, one month's slippage in sales would not alter our assessment for continued slow growth. However, a series of other recent reports suggest a clear loss of momentum early in the second quarter.

The following is a list of recent reports were both below expectations and below the prior month's result:

ISM Manufacturing Survey  
Vehicle Sales  
ISM Services Survey  
Change in Payrolls  
Retail Sales  
Consumer Confidence

It is likely that higher taxes will continue to take a bite out of growth. We see higher taxes contributing to a 12% fall in the government's deficit this year (a long term positive), but this will put near-term pressure on household deleveraging, savings, and profit growth. Despite some slowing, we expect the economy to eke out a 2% overall growth rate this year (for a full analysis, see our recently released quarterly report on asset allocation below). Slow growth should keep the Federal Reserve and other central banks alert for signs of deflation, but the real economy must gain traction.

Quantitative easing is limited by inflation, however, and expectations for inflation are near the Fed's 2.5% long-run inflation target (10-year TIPS market forecast is pricing in about a 2.4% long-run inflation rate). A sharp drop in inflation expectations or material slippage in the economy could change the Fed's reaction function, but the most recent statement from the FOMC appears to lean away from the idea of additional easing (and leaves room for an eventual moderation of current easy money policies).

Meanwhile, earnings season is again underway and analysts are looking for a contraction of -0.3%, according to Fact Set. Treasury yields are also falling. The yield on a 10-year government bond is down by 0.35% to 1.7% versus 2.05% in mid March. Despite weaker data, the stock market has been rallying on the promise of additional monetary easing by central banks. The combination of moderating fundamentals, slower earnings growth, and higher stock prices leaves us an opportunity to dial back equity exposure and we have done so. Portfolios are now allocated near their longer-term, strategic allocations (from overweight equities).

Tactical Asset Allocation Quarterly:

<http://www.washingtoncrossingadvisors.com/commentary/Q22013/Q22013.pdf>

## Market Comment

## COMMODITIES AND GOLD

Other measures of inflation include commodities and gold. A sharp drop in the price of gold places the metal at the largest discount to the S&P 500 since 2008. Since the start of the financial crisis, an ounce of gold has traded between a 40% discount to, and a 40% premium above, the S&P 500 index (with an average relationship close to a 1 to 1 pairing).

The recent sharp drop in the metal, along with a more general sharp drop in overall commodity prices, comes at a time when China's growth rate has slipped below 8% and speculation mounts that Cyprus may have to sell some gold to cover potential loan losses to the central bank (Cyprus has 13.9 metric tons of gold). Slower growth, potential sales, and speculation of more moderate actions by the Fed are pressuring commodities (table).

## Commodity Price Performance From Recent Peaks

Commodity	Current	High (Date)	Decline
Oil	\$88.29	\$97.18 (3/28)	-9.1%
Copper	\$328.10	\$379.75 (2/1)	-13.6%
Aluminum	\$1853.50	\$2,168.00 (2/15)	-14.5%
Gold	\$1,364	\$1,790 (10/4)	-23.8%
Silver	\$23.25	\$35.00 (10/4)	-33.6%
CRB Commodity Index	\$280.93	\$320.92 (9/14)	-12.2%

As you can see, there has been some downward pressure across a wide range of commodities in recent weeks and months. This is somewhat surprising given the stepped-up efforts by central banks (ECB, Fed, and Bank of Japan) to engage in a variety of asset purchase programs. Exposure to gold in portfolios has been scaled back, but we are maintaining a position that is in-line with long-term strategic targets.

## Conclusion

Slowing fundamental momentum and higher stock prices are giving us an opportunity to return portfolios closer to "neutral" equity / bond weightings. We are awaiting additional information on fundamentals and policy reaction before initiating any further tactical changes. Further changes will be a function of fundamental trends, valuation, and policy.

## INDEX DEFINITIONS

Barclays U.S. Government Inflation-Linked Bond Index measures the performance of the U.S. Treasury Inflation-Protected Securities (“TIPS”) market. Used as a proxy for “inflation-protected bonds.”

Bloomberg/EFFAS Bond Indices U.S. Government 1-3 Year Total Return Index is a transparent benchmark for government bond markets. Indices are grouped by country and maturity sectors. Bloomberg computes daily returns and index characteristics for each sector. Used as a proxy for “short-term Treasuries.”

Bloomberg/EFFAS Bond U.S. Government 10+ Year Total Return Index is a transparent benchmark for the total return of the 10+ year U.S. Government bond market. Used as a proxy for “long-term Treasuries.”

FINRA-Bloomberg Active Investment Grade U.S. Corporate Bond Index and FINRA-Bloomberg Active High Yield U.S. Corporate Bond Index are comprised of the most frequently traded investment-grade and high-yield U.S. corporate fixed coupon bonds represented by the Financial Industry Regulatory Authority (FINRA) transaction reporting facility. Used as proxy for “high-yield bonds.”

FTSE NAREIT Equity REIT Total Return Index is a total return performance index of all equity REITs tracked by NAREIT. Used as a proxy for REITs.

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. As of December 2012, the MSCI EAFE Index consisted of 22 developed market country indices. Used as a proxy for “developed foreign.”

MSCI Emerging Markets Index is 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.”

The Standard & Poor’s 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market.

Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 index. The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. Used as proxy for domestic “large cap stocks.”

Russell 2000 Index measures the performance of the 2,000 smallest companies in the broader Russell 3000 index. Used as proxy for “small cap domestic stocks.”

Russell 3000 Growth Index measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. Used as proxy for “domestic growth stocks.”

Russell 3000 Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios. Used as proxy for “domestic value stocks.”

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Asset allocation and diversification do not ensure a profit and may not protect against loss. 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. Due to their narrow focus, sector-based investments typically exhibit greater volatility. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. Property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance of real estate companies. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. High-yield bonds have greater credit risk than higher quality bonds. The risk of loss in trading commodities and futures 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.