Dorchester Advisors
Money Worked Harder

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Q1 2013 was a fine quarter for US equities.

But, I recall 2008. We were in the midst of the financial markets meltdown. Stalwart companies like AIG and Fannie Mae were crashing to the ground. The emotions were palpable. At that time I counseled myself, and my clients, that "This too shall pass".

Now we are in 2013. Major equity indices are at multi-year highs; many at all-time highs. The mood is upbeat and it feels that instead of looking up at the sky, we might be amidst it. Now, as then, my self-counsel is: "This too shall pass".

I caricature the stock market as a tug-of-war. Each market day, the participants collect and divide themselves into two teams: The bulls and the bears. They grasp the rope and then, they pull with all their might. On some days the bulls seem to have an edge and the marker on the rope goes one way; on other days the bears force the rope-marker the other way. But over time the marker does not stray too far from a line in the ground: the market value based on fundamentals. And so it has remained in financial history; and thus far neither the bulls nor the bears have enjoyed a permanent victory. It's the fundamentals that have driven the markets to higher levels.

Looking ahead, I allow myself some reassurance that "Things will be alright". But I am reminded of a quote: "Things will be alright", does not mean, that "Things will stay the same".

MARKET MONTH: APRIL 2013

The Markets

Despite some bumps along the way, both the S&P 500 and the Dow industrials soared to new all-time records, and the Nasdaq set a new closing high for the year. The Dow followed its best week of 2013 with its worst week of 2013, while the S&P surpassed its previous record close on the last day of the month. The small caps of the Russell 2000 saw their worst week since June 2012, which contributed to the index's first monthly loss since October. The refocus on growth as well as austerity helped the Global Dow beat the domestic indices decisively, though it continued to lag them for the year.

A one-day loss of $140 an ounce sent gold to lows not seen since early 2011, though it subsequently regained more than half of the month's loss to end at almost $1,470 an ounce. Silver also lost roughly 14% during the month, while oil prices fell below $90 a barrel. Demand for Treasuries sent the 10-year yield down as prices rose.

Market/Index	2012 Close	Prior Month	As of 4/30	Month Change	YTD Change
DJIA	13104.14	14578.54	14839.80	1.79%	13.25%
Nasdaq	3019.51	3267.52	3328.79	1.88%	10.24%
S&P 500	1426.19	1569.19	1597.57	1.81%	12.02%
Russell 2000	849.35	951.54	947.46	-.43%	11.55%
Global Dow	1995.96	2108.55	2178.44	3.31%	9.14%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	1.78%	1.87%	1.70%	-17 bps	-8 bps

Equities data reflect price changes, not total return.

The Month in Review

- The U.S. economy grew 2.5% during the first quarter of 2013, according to the Bureau of Economic Analysis. However, that pace was weaker than expected, and growth for the previous quarter was revised downward to a paltry 0.4%. Gains in consumer spending, business inventories and capital investments, exports, and residential investment were partly offset by higher imports and government spending cuts at federal, state, and local levels.
- The unemployment rate fell slightly to 7.6%, according to the Bureau of Labor Statistics' April report for March. However, the 88,000 new jobs represented the slowest job growth in almost a year, and much of the decline in the unemployment rate resulted from half a million people leaving the workforce.
- The housing market continued to be a cornerstone of economic recovery. The 20 cities of the S&P/Case-Shiller index saw home prices that were 9.3% higher than a year earlier. New

home sales were up 1.5% in March, and 18.5% higher than the same time last year, according to the Commerce Department. The National Association of Realtors® said sales of existing homes were up 10.3% from a year ago, though tight inventories cut sales by 0.6% for the month. And a 7% increase for the month put new residential construction at its highest level since 2008; the Commerce Department said that's almost 47% higher than a year earlier.

- Lower energy costs after a sharp run-up the month before helped cut inflation at both the consumer and wholesale levels. The Bureau of Labor Statistics said a 0.2% monthly decline cut the annual consumer inflation rate to 1.5%. Wholesale prices were down 0.6% for the month, and the 1.1% year-over-year increase was the smallest since last July.
- Lower gas prices also affected U.S. retail sales, which the Commerce Department said were down 0.4% for the month but 2.8% higher than a year earlier. Consumer spending also rose 0.2% during the month, though it was the smallest increase in three months and higher utility bills were responsible for much of it.
- Manufacturing data was mixed. The Fed said Q1 industrial production saw its biggest gain in a year. However, the Empire State and Philly Fed manufacturing surveys saw monthly declines, and the Institute for Supply Management found growth slowing in both the manufacturing and services sectors. Also, the Commerce Department said a drop in spending on commercial aircraft cut durable goods orders 5.7%; it was the second monthly dip in three months.
- The Bank of Japan announced a massive expansion of its quantitative easing efforts to try to drag the country out of the deflation that has plagued it for years. Meanwhile, there were signals that Europe might be easing its push for austerity as Ireland, Portugal, and Spain were granted more time to meet deficit reduction targets.
- The Chinese economy showed weaker-than-expected growth during the first quarter. According to China's National Bureau of Statistics, gross domestic product rose 7.7% rather than the 7.9% the quarter before.

Eye on the Month Ahead

The equities rally could face a challenge from any "sell in May, go away" sentiment and/or potential economic fallout from the sequester's budget cuts. Any fresh clarity from the Fed about the timing of quantitative easing's end also could have an impact.

Key dates and data releases: FOMC announcement, U.S. manufacturing, construction spending, auto sales (5/1); balance of trade, business productivity/labor costs (5/2); unemployment/payrolls, U.S. services sector, factory orders (5/3); retail sales, business inventories (5/13); import/export prices (5/14); wholesale prices, industrial production, Empire State manufacturing survey, international capital flows (5/15); consumer prices, housing starts, Philly Fed manufacturing survey (5/16); leading economic indicators, options expiration (5/17); home resales, FOMC minutes (5/22); new home sales (5/23); durable goods orders (5/24); home prices, Dallas Fed manufacturing survey (5/28); revised estimate of Q1 GDP (5/30); personal income/spending (5/31).

Data sources for non-equities performance: U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK);

www.goldprice.org (spot gold, NY close); Oanda/FX Street (currency exchange rates). All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. Equities data reflects price changes, not total return.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indexes listed are unmanaged and are not available for direct investment.