SELECTOR® Money Management
2013 First Quarter Review

Equities Versus Bonds

The clear winner in the battle of equities versus bonds in the first quarter of 2013 was equities. January was the strongest of the first three months with a very big opening day. The Dow Jones Industrial Average (DJIA) gained over 300 points (+2.35%) on January 2nd, and never looked back the entire quarter. February's gains were muted by a very brief -2% correction the end of the month, which proved to be the only correction in the entire first quarter. March picked up the pace once again with a strong two week run before closing out the quarter on a positive note. The Standard and Poors 500 Index (S&P 500) finished the first quarter with a gain of +10.61%. Over the course of the first quarter, the rally broadened out to include not just the large cap sector, but also mid cap and small cap equities. This breadth spread across almost all of the primary industrial sectors, especially the health care sector.

The more defensive bond securities took a back seat in the first quarter as capital flowed into the surging equity markets. Bonds responded in a positive fashion during the brief equity correction in February, but essentially closed flat for the quarter. The Barclays U.S. Aggregate Bond Index finished the first quarter with a total return -0.13%. Municipal bonds and corporate closed the quarter with gains of less than one percent, while intermediate-term government and TIPs bonds ended the quarter with losses of less than one percent. The Barclays U.S. 20+ Year Treasury Bond Index finished down -2.82%.

Domestic Equities Versus International Equities

There was an advantage to being invested in domestic equities versus international equities in the first quarter. January's price push was shared equally between the domestic and the international equity markets. But some of the old ghosts that haunted European markets in previous years reemerged in February and March. The S&P Europe 350 Index managed to hold on to a gain of +2.64% by the end of the first quarter. With the help of Japan and other Far East markets the broader MSCI EAFE Index closed with a +5.13% gain at quarter's end.

After a spectacular surge in December of 2012, emerging markets didn't come out of the gate well in January, and continued to gradually slide lower throughout the first quarter. The MSCI Emerging Markets Index was down -1.62% for the quarter, and the widely followed MSCI BRIC (Brazil, Russia, India, and China) Index lost -2.98%.

The Bottom of the Barrel – Basic Materials, Gold, and Silver

While all ten of the primary domestic equity sectors finished with gains in the first quarter, the basic materials sector was at the bottom of the list. Not surprisingly, international basic materials equities fared even worse, and emerging markets basic materials were at the bottom of the barrel. Respectively, the Dow Jones U.S. Basic Materials Index gained +1.86%, the S&P Global 1200 Materials Sector Index finished down -3.92%, and the MSCI Emerging Markets Materials Index lost -9.94%. Precious metals finished slightly better. The London Gold PM Fix was -3.95% lower at the end of the quarter, and the London Silver Fix Price was -4.37% lower.

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