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FINANCIAL ASSET MANAGEMENT CORP.
A REGISTERED INVESTMENT ADVISOR

Investment Review & Outlook
1st Quarter 2013

As we all know, the investment markets offer no guarantees. Short term there is more uncertainty and risk. Long term, the equity markets have proven to be a winning hand more often than not. In the first quarter of 2013, the U.S. equity markets continued the rally from last year. What the 2nd Quarter brings us is unknown, but we do expect a pullback from the current record levels.

The Wilshire 5000--the broadest measure of U.S. stocks and bonds--rose 10.91% for the first quarter--more than half of the strong gains it made last year. While the widely-quoted S&P 500 index of large company stocks gained 10.03% for the quarter and celebrated a new closing high of 1,569.19 on the last trading day of the quarter.

Small company stocks, as measured by the Wilshire U.S. Small-Cap, gained 13.11% in the first quarter and the technology-heavy Nasdaq Composite Index was up 8.21% for the quarter.

The broad-based EAFE index of larger companies in developed economies rose 4.38% in dollar terms during the first quarter of the year. The stocks across the Eurozone economies eked out a 0.63% gain for the quarter, reflecting continued uncertainty over whether Spain and/or Italy will require restructuring help on their government bonds. Meanwhile, the Far East economies rose 9.18% in the first three months of the year. In the only truly negative investment news, the EAFE Emerging Markets index of lesser-developed economies fell 1.92% for the quarter.

Treasury bonds continue to post near-record low yields. Five-year yields are still at 0.76%, and 10-year yields are at 1.85%.

It is hard to believe that the U.S. and global economies are still suffering a hangover from the Great Recession, but the fact that the Federal Reserve Board is keeping interest rates artificially low, coupled with still-high unemployment, makes the case. So, too, does unusually slow and bouncy economic growth; the U.S. economy, measured by the Gross Domestic Product, rose at a 0.4% annual rate in last year's fourth quarter, after a 3.1% gain in the previous three months.

However, there have been some optimistic signs. Consumer spending, which accounts for roughly 70% of the U.S. economy, rose in February by the highest rate in five months, according to the Commerce Department. Although the gain was still a modest 0.7%, the fact that people were spending more surprised many economists, who expected that the two percentage point increase in the payroll tax would cause Americans to feel poorer when they received their paychecks.

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Rising home values and wage gains across the economy have made it easier for households to repair their finances. Incomes were up 1.1% in February and the overall U.S. savings rate managed to climb from 2.2% to 2.6% despite the increased spending and higher taxes. Home property values, measured by the S&P/Case-Shiller Index, rose 8.1% over the past year, the biggest year-to-year gain since 2006. Inflation is still low; the core measure which excludes food and fuel costs rose 0.1% from the prior month, in line with the 1.3% jump in the year since February 2012. Unemployment is finally trending downward, with employers adding a net 355,000 workers in the first two months of the year.

Does this mean the economic recovery will accelerate, boosting stock prices to ever-higher levels? Or are today's record stock prices a sign that the market is about to take a plunge? Alas, only somebody with a working crystal ball can answer these questions. What we DO know is that the most successful investors are fearful when everyone around them is greedy and greedy when other investors are fearful. For the past year, investors have been extremely nervous about U.S. deficits and the continuing debt crisis in Europe, yet stock market returns were excellent last year and unusually high in the first three months of this year. As the market has risen, we are starting to see fear waning. It is hard to say the next move in the markets, but a pullback at some point is well over due.

All we can say for certain is that eventually the U.S. economy and the global markets will recover their mojo, and the Great Recession of 2008 will become a distant memory. Historically, the markets have delivered positive returns about 70% of the time, which is much better odds than you are likely to find in a casino.

As always, we appreciate your continued confidence in us. Please feel free to contact us with any questions you may have.

The FAM Team