

“Our Clients’ Past Successes are Not Necessarily Indicative of Future Successes.”

Stamper Capital & Investments, Inc.

“Focusing on Upside Potential and Downside Protection Since 1995.”

January 2013 Market Commentary

(Note: Please see our previous [Annual Forecasts](#) and our [Blogs](#) for considerable background on our forecasts)

2012 Review and 2013 Forecasts

First, a table of what happened in 2012 in a longer term context:

<u>Index</u>	<u>2012 Total Return</u>	<u>Current* Rebound Top</u>	<u>Change From Rebound Top to 21-31-2012</u>
Dow Jones Industrial	+10.23%	10-05-2012	-3.78%
S&P 500	+15.99%	09-14-2012	-2.70%
Russell 2000	+16.34%	04-29-2011	-1.84%
NASDAQ	+10.23%	09-14-2012	-5.08%
KBW Bank Index (“BKX”)	+15.99%	04-23-2010	-11.5%
CRB Commodity Index	-3.37%	04-29/2011	-20.39%
Oil	-5.03%	04-29-2011	-16.48%
Silver	+7.74%	04-29-2011	-37.46%
Gold	+7.74%	08-22-2011	-12.08%
Copper	+4.36%	02-14-2011	-21.94%
Case Shiller Housing Index	+6.75%	07-31-2010	-2.06%(to 11-30-12)
Philly Housing Index (“HGX”)	+66.4%	12-18-2012	-0.81%
US Dollar	-0.64%	04-29-2011 Low	+9.375% (from low)

(Note: U.S. Dollar is moving inversely to other markets)

* rebound top since 2009 super bottom

We are going to keep it short and sweet in this Annual Review.

Equities - The stock market was up for 2012 as you can see in the table above. However, as you can see from the rest of the table, rebound tops from the 2009 super lows are still intact with some as far back as 2010. We think this is significant because our observation is that tops are round (rather than converging spike lows like that of the 2009 bottom) and large tops see individual indice tops spread out over a longer period of time than smaller tops. Generally, the bigger the top, the bigger the fall.

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Commodities – Up for 2012, but identical rebound highs (since the 2009 lows) are in April 2011 for most commodities with Copper topping earlier and Gold topping later. Importantly, the larger trend is still downward.

Housing – As we forecasted last January, the top for S&P Case-Shiller Home Price Index (of all 20 metropolitan markets) of July 2010 stayed intact, again. However, the Philadelphia Housing Index (of homebuilders, “HGX”) took off with the highest return for 2012 in the chart above. But, to keep it in proper perspective, we point out that it is still 42.36% below its 7-28-2005 peak. When you see a big annual return, it is most likely a rebound from an even bigger drop - which it is in this case.

U.S. Dollar – The model we’ve been using is that the U.S. dollar is moving inversely to most other markets, and it did so again in 2012 – just barely negative.. While most domestic commodity markets put in highs (from 2009 crisis bottoms) on April 29, 2011, the U.S. dollar put in its lowest low from its 2009 crisis high) on the very same day! - April 29, 2011 with a substantial rebound since then. We believe the U.S. Dollar will continue to perform inversely with most other market indices (stocks, commodities, lower quality bonds, real estate) and, accordingly, put in a rally similar to 2008. We believe that rally began 4-29-2011 and is just now getting ready to accelerate, in conjunction with interest rates going up – see below.

U.S. Treasuries –

<u>Security</u>	<u>Yields</u>		<u>Change</u>
	<u>01/04/12</u>	<u>12/31/12</u>	
3 MONTH	0.068	0.043	- 3 basis points
2 YEAR	0.265	0.249	- 2 basis points
5 YEAR	0.809	0.724	- 9 basis points
10 YEAR	1.900	1.758	-14 basis points
30 YEAR	3.098	2.950	-15 basis points

Yields of the highest quality interest rates barely dropped from the beginning to the end of the year. **However, we think what U.S. Treasury rates did during the middle of the 2012 was very significant.** As we forecasted, Treasury yields during the year dropped below their 2008 lows. In fact, most put in life-time lows during the year as we detailed in near real time in our blog.

What is just as significant to us as the life-time lows achieved in mid 2012 is the size of the rebound since then (and that neither of these have been highlighted, much less covered in the major media):

U.S. Treasury	<u>Ten Year</u>	<u>30 Year</u>
Life Time Lows		
Date	7-24-2012	7-25-2012
Yield	1.39%	2.45%

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1-31-2013 Yields	2.00%	2.17%
Increase from low	+61 basis points	+72 basis points
Percent Increase	+ 44%!	+ 29%!

We are not sure if Treasuries will see their yields drop below the current record lows. In fact, we believe the long term trend in yields is now upwards – this is very significant because if true, the rising yields will push down the prices of almost all assets in our currently highly leveraged/debt financed economy. However, we think treasury yields will likely, drop (prices rally) during flights to quality if we are correct that prices of most other asset classes plummet in a manner similar to 2008.

Municipal Bonds – Oh what a market...divergence. Muni’s rallied to record low yields. At the same time you had record low downgrades of municipal credit ratings by Moody’s. Moody’s downgraded a record \$311 billion of municipal bond ratings in 2012. It lowered ratings on about 6% of the 14,000 municipal borrowers it rates. This was a 60% increase from the amount of ratings downgraded in 2011. The previous record for downgrades by Moody’s was at the bottom of the financial meltdown in 2009 when it downgraded ratings of \$256 billion of municipal issuer paper.

Because this market has seen the largest divergence between reality and price, and because most municipal buyers are dramatically overestimating the safety of municipal bonds, we want to emphasize that the muni market easily holds the most potential to provide investors with the largest shock of substantial downside performance. Likely, only the highest quality municipal bonds will hold up well in a downturn. Short duration will also be helpful.

Forecasts – Our long-standing, long term forecast since 2002 of the “Right-Tilted W” is still “on course.” For a good review of it read our analysis, [‘W’hat Goes Up Must Come Down: Stamper Capital & Investments Forecasts Become Reality](#) (published November 18, 2010, www.risk-adjusted.com). In that forecast, we speculated that the form of the markets would take the shape of a “W” tilted with the right lower than the left. 2000 was the top left of the W, the 2003 bottom was the first bottom, the rebound to 2006/2007 was the middle point of the W, and the drop down to a lower low (making it “right-titled”) is currently in progress (although the 2009 already met the minimum condition). Going further, we believe the top was 2000, or 1998 if adjusted by inflation. We have referred a few times to an 18 year cycle which we believe is operable. Thus, we are looking for the ultimate low in either 2016 or 2018. Officially, we are forecasting the low in 2016 for equities and 2018 for real estate as it typically lags the stock market by eighteen months to two years. We have also said that while we will make these educated guesses of the timing and levels of the future major bottoms, we likely will not really know until we get there (obviously forecasting so far out in the future is subject to change), but we expect we will know in real time, just as we did at the late 2008 and early 2009 lows.

Shorter term - We believe the markets have been correcting the drop from the 2006/2007 bubble tops into the early 2009 bottoms by rising in significant and choppy fashion. We

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believe that correction (up) is over for some markets like bank stocks and housing which saw their highest peaks back in 2010. As for the others, we believe most of the commodity index tops on April 29, 2011 (see Chart at top of page) as well as the U.S. dollar’s bottom on that same day will hold. We do note that some equity tops on that day that we expected to hold were exceeded during 2012 but not by all that much.

We think the most significant thing to happen this year in the investment markets was the achievement of life time lows in the U.S. Treasury market, taking out those of the 2009 financial meltdown flight-to-safety bottom, and their subsequent, significant rebounds as detailed above. Importantly, these facts have not been in the media at all. It maybe that no one wants to highlight the bad news. However, we believe the likelihood of increasing yields of the bench market bonds is going to lead to havoc in our highly leveraged debt based economy. To us, the low yields have pretty much been the only thing holding asset prices up. If they continue to rise, we believe we will see prices of most assets fall significantly. Thus, unfortunately, we are looking for major drops in asset prices similar to the declines in 2007, 2008 and 2009.

As mentioned previously, please review our previous [Annual Forecasts](#) and [Blogs](#) if you want to get considerable back ground information why we are making these forecasts.

Re-investment - Also, we want to add that we believe the effect of interest rates being so low for several years now is starting to take its toll. People on fixed income are now seeing a significant amount of their higher paying CD’s and higher coupon bonds maturing/rolling over and being replaced at lower and lower interest rates. For example, what was a 5% Five Year T-Note in 2007 is maturing and is now being invested five years later into a new Five Year T-Note yielding only 80 basis points! On \$100,000 the drop in interest income is from \$5,000 per year previously down to a relatively minuscule \$800 per year.

	<u>2007</u>	<u>2012</u>
5 year U.S. T-Note	5%	0.80%
Annual income on \$100K	\$5,000	\$800

That is a huge drop; the new amount is a factor of 6.25x lower. As people’s fixed income assets roll over, at certain point, if they do not lower what they spend on their life style, they will be consuming their principal. We believe this re-investment risk is being experienced on a worst case basis and will send more and more negative ripples through the economy over time and ultimately will negatively affect asset prices as well as putting pressure on other everyday prices. The situation is very unfortunate but I think it is best to be aware of it if you are not personally already. Also, it maybe that the decline in fixed incomes due to lower and lower interest rates over the past four years is now coming back to haunt us in the form of yields rising (as discussed above); it could be that there is now simply less money to bid bond prices up (yields down) as minimal income has been being earned and principal/capital has been being consumed.

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Negative Sum Game & Deflation – Another point that we want to make, that we have made before, is that in a scenario like 2008, even if you lost say 5% on your investments, you are substantially ahead if everything else is down say 25% or 50% (as many investments were in 2008) and, it is a tax-free gain! I think it is a good idea to keep this perspective because in a 2008-type scenario, other than if you were “short,” it was very difficult to not lose money on an absolute basis, **but it was not that difficult to make money on a relative basis.** If we have the second large decline that we are forecasting, we will likely be in a real deflation with prices of every-day items actually dropping this time – not just having price increases slowing down. In the situation of an across-the-board deflation, assets earning zero or more on an absolute basis will be large relative winners because the costs of everything will be dropping. It is painful to think about but we think it is very realistic as we deem the likelihood of an outright deflation a likely outcome, unfortunately. Better to be knowledgeable and safe than sorry.

As always, we at Stamper Capital will continue to focus on the upside potential and downside protection of the assets we manage.

**Thank you for your patronage,
Stamper Capital & Investments, Inc.**

**Since 2001, “Safety” was our watchword for the 2000-2009 decade.
Unfortunately, “Safety” is still our watchword until we get to the final bottom,
which we believe is still much lower.**

(Posted January 31, 2013)

FOOTNOTES:

Stamper Capital Composite Return Calculation Footnote:

Returns are presented in United States Dollars. Composite returns are calculated monthly using a Monthly Discounting Model. No cash carve outs are made. Quarterly returns are time-weighted rates of return calculated by geometrically linking the composite’s monthly returns. Annual returns are time-weighted rates of return calculated by geometrically linking the composite’s quarterly returns. Gross Returns are after transaction costs but are before management fees; Net Returns are after Stamper Capital management fees. Investment advisory fees will reduce client’s returns. Fees are hypothetically taken out of non-fee paying accounts when reporting net-of-fee returns. Other costs reducing returns are custody account fees and possibly ticket charges, which can vary depending upon the custodian used. Also, see Disclaimer, below.

Morningstar & Lipper Total Returns Calculation Footnote:

Returns - Figures quoted are total returns calculated for the share class and time periods shown. Performance includes the reinvestment of income dividends and capital gains distributions. Performance does not reflect the deduction of taxes that a shareholder

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would pay on a fund distribution or the redemption of fund shares. Please go to Morningstar's and/or Lipper's website for more information.

Calculation of Risk-Adjusted Performance Returns Footnote:

Statistical Standard Deviation is the measure typically used, and we are using, as a proxy for risk. Standard Deviation is measured versus a composite's or competitor's own returns. Importantly, Standard Deviation is an attempt to measure risk that has been experienced; however, there may or may not be other risks that were taken on (by our clients or our competitor's clients, etc.) that were not experienced and/or that were not measured by Standard Deviation. Importantly, those risks will likely ultimately, at some time, be realized as we saw in the financial collapse of 2008. Stamper Capital's Upside Potential/Downside Protection Analysis and Implementation attempts to consider these risks and we believe is, in a large part, responsible for our historical outperformance during more unusually volatile periods. Of course, past performance is not necessarily and indication of future success.

Morningstar Risk-Adjusted Star Rating Footnote:

For each fund with at least a 3-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. Please go to Morningstar's website for more information.

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"(1)A broker-dealer, investment adviser, BD agent or IA rep may only transact business in a particular state after licensure or satisfying qualifications requirements of that state,

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or only if they are excluded or exempted from the state's broker-dealer, investment adviser, BD agent or IA rep requirements, as the case may be; and "(2) Follow-up, individualized responses to consumers in a particular state by broker-dealer, investment adviser, BD agent or IA rep that involve either the effecting or attempting to effect transactions in securities or the rendering of personalized investment advice for compensation, as the case may be, shall not be made without first complying with the state's broker-dealer, investment adviser, BD agent or IA rep requirements, or pursuant to an applicable state exemption or exclusion. "(3) for information concerning the licensure status or disciplinary history of a broker-dealer, investment adviser, BD agent or IA rep, a consumer should contact his or her state securities law administrator."

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