



*Strategic was selected to provide expertise as a panelist in the CNY Business Journal Financial Quarterly publication. Please read below to find out our views on the market, economy and investing. Strategic Financial Services is a registered investment advisor managing and advising on over \$800 million in client assets.*

**Q. What is your view on where the financial markets are headed in the coming months?**

**A.** In November of last year, we expected continued volatility in the equity markets with a bias to the upside supported by solid company fundamentals and attractive valuations. This view was decidedly contrarian as market participants were positioned defensively in response to the euro zone crisis and an uncertain domestic economic outlook. Over the course of the past 3 months, the market has rallied impressively with a return of approximately 7%.

Strategic's investment process emphasizes valuation as a primary input for our single security and asset allocation work. Currently, we believe equity markets are valued fairly to slightly extended after the recent rally. We expect some profit taking as investors recognize that market valuation has been reset higher (although still depressed by historical standards) in light of less robust corporate profits in the fourth quarter. Structural macro-economic issues in Europe, the United States and even China, remain in place despite some recent improvements in the headline numbers. In addition, the political status quo threatens recovering investor sentiment as election year gamesmanship is played around critical issues such as unemployment benefits and the debt ceiling. Our base case scenario calls for stocks to take a breather to digest recent gains over the coming months. The market should be range bound with risks slightly skewed to the downside.

Despite near-term caution, Strategic believes that stocks are positioned to outperform bonds and patient investors could be rewarded handsomely over the longer term. Future performance is never guaranteed.

**Q. How will election-year politics will affect the markets and the economy?**

**A.** A US election not only has the general public excited, but it has implications for the markets and the economy as well.

A look at the 23 election years since 1920 tells us that 68% were positive, in-line with non-election

[www.investstrategic.com](http://www.investstrategic.com)

OFFICES — SYRACUSE, NY | UTICA, NY | WEST PALM BEACH, FL

PHONE: 800.937.4461



**BUSINESS JOURNAL**  
CENTRAL NEW YORK

years. So it seems election years do not have an outsized effect on market performance. On average though, stocks have seen greater strength when Republicans have been elected. Election year politics will result in a continuation of the “status quo”, with neither party willing to compromise on key issues. Additional concrete steps are required on the fiscal front to foster economic growth. Reining in the budget deficit through lower spending and laying out clear policies that boost business investment, encourage hiring and lead to a recovery in the residential housing market would go a long way towards a more structural long-term recovery. In recent times, the Federal Reserve has been willing to fill in for the lack of fiscal action from the government through accommodative monetary policies, an unsustainable course of action in our opinion.

**Q. Provide specific recommendations for investments that clients should be making right now.**

**A.** For most of the past year, strong performance at the corporate level was overshadowed by macro-economic concerns. Given that the equity markets have now rallied over 20% since their October lows as some of the big picture concerns have eased, the easy money has been made and selective stock picking has become more important. Value still can be found in selected segments of the stock market.

While we prefer to approach the discussion of investment recommendations within the context of a portfolio perspective, we understand that specific stock picks are more likely to garner the reader’s attention. Currently, we believe Google Inc (Symbol GOOG, \$608), the online search behemoth deserves a look. The company is a leader in desktop based online advertising, and we expect robust growth over the coming years in the space. The continued shift of advertising dollars from traditional media to online channels in the developed world and increasing penetration in emerging markets should continue to drive Google ahead. Google should further benefit from other growth avenues such as Mobile advertising through the proliferation of Android mobile phones and display advertising though enhanced YouTube monetization. Other initiatives such as Mobile wallet, Google Offers, and Google + should provide incremental benefits over the next 5 years. We continue to see Google as a 15%+ grower trading at an attractive value for its growth profile.

[www.investstrategic.com](http://www.investstrategic.com)

OFFICES — SYRACUSE, NY | UTICA, NY | WEST PALM BEACH, FL

PHONE: 800.937.4461



**Q. What do you see as the greatest risks investors need to be aware of and seek to avoid in the coming months?**

**A.** We believe investors should be wary of chasing returns in the near term and willing to take profits when valuations become extended. As an example in the fixed income space, we recently took profits on behalf of our clients in Treasury Inflation Protected Securities after a return of over 10% in 2011.

When equity markets are driven too much by investor sentiment emanating from bigger picture macro-economic issues, heightened volatility is the order of the day. Emotion based short term tactical decisions expose investors to the risk of being whipsawed and making ruinous longer term investment decisions. We advise investors to allocate investment capital prudently for the longer term within a customized framework of well-defined risk and return objectives so that portfolios are positioned properly for the inevitability of the occasional stock market sell-off.

**Vinayak Rao**  
**Portfolio Manager**

Disclosure:

*Strategic owns Google Inc. in at least one of our equity strategies. Strategic does not make a market in Google Inc. The security identified and described does not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the security identified was or will be profitable. A full list of securities held in our equity strategies over the past 12 months will be presented upon request.*

[www.investstrategic.com](http://www.investstrategic.com)

OFFICES — SYRACUSE, NY | UTICA, NY | WEST PALM BEACH, FL

PHONE: 800.937.4461