DMS

Discretionary **M**anagement **S**ervices, LLC

What We Are Telling Clients

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April 2013

Below is a summary of our views on the economy and markets we are sharing with discretionary clients.

Economic Outlook

- Fourth quarter GDP growth was 0.4%, down from 3.1% in the third quarter. We expect GDP to grow at a slower 1.0% to 2.0% pace for 2013 due primarily to an increase in taxes and a slowdown in government spending.
- Inflation will be modest as unemployment remains stubbornly high. Wage growth will continue to be stagnant. Housing is slowly recovering.
- Increases in tax rates will slowly work their way through the economy as consumers adjust personal spending to offset less take home pay.
- The Fed will continue expanding its balance sheet at $85 billion per month and will defer any slowdown in asset purchases until much later in the year or into 2014.
- The European economy will struggle to recover from recession. Growth will remain at a pace less than U.S. growth.
- Growth in emerging markets will lead developed markets as consumers in emerging market countries continue to increase their percentage of global consumption.

Strategic Market Outlook

- Corporate earnings will continue to grow quarter over quarter, but the rate of growth will decrease to low single digits.
- The downside risk of the stock market is increasing as the market appears to be fully valued.
- Stock volatility will continue to be strongly influenced by global macro events such as U.S. budget talks, potential China economic slowdown or a new sovereign debt crisis in Europe.
- U.S. Treasury bond yields will trend slightly higher as investors choose to invest in higher yielding corporate bonds. Credit spreads will continue to narrow in response.
- Larger cap and higher quality U.S. equities offer relative safety to other equity classes. Emerging market stocks, while more volatile, will benefit from stronger economic growth in those countries.

Current DMS Tactical Positions

- Equity exposure is underweight in favor of lower volatility fixed income assets.
- Within equities, our focus is on lower beta stocks of large, high quality, dividend paying companies.
- Within equities, small cap stocks are considered "rich" and DMS is underweight.
- International stocks remain underweight due to continuation of European debt troubles and lackluster economic growth.
- Among International equities, emerging markets stocks are relatively attractive as those countries lead in global economic growth. Asia markets are favored relative to Europe.
- Within fixed Income, credit is overweight compared to Treasuries. High yield is viewed favorably.

If you are interested in more information, please call Tom Woolwine, President, at (913) 981-1345 or email, twoolwine@dms-demarche.com.