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Market Month: February 2013

The Markets

Continued improvements in economic data seemed to trump any investor anxiety about the impending package of budget cuts known as the sequester. Domestic equities ended the month on a high note, though the Nasdaq continued to trail the other three indices. In February's last week, the Dow was less than a percentage point from its 2007 all-time high, while the S&P 500 wasn't far behind. The Global Dow suffered from political uncertainty and economic conditions in Europe.

Treasury yields dipped slightly, while the price of gold slumped almost \$60 an ounce to end the month at roughly \$1,580. Oil prices fell roughly \$5 a barrel (though the decline certainly didn't show up at the gas pump), and the U.S. dollar gained roughly 3% against a basket of six foreign currencies.

Market/Index	2012 Close	Prior Month	As of 2/28	Month Change	YTD Change
DJIA	13104.14	13860.58	14054.64	1.40%	7.25%
Nasdaq	3019.51	3142.13	3160.19	.57%	4.66%
S&P 500	1426.19	1498.11	1514.68	1.11%	6.20%
Russell 2000	849.35	902.09	911.11	1.00%	7.27%
Global Dow	1995.96	2122.15	2087.32	-1.64%	4.58%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	1.78%	2.02%	1.89%	-13 bps	11 bps

Equities data reflect price changes, not total return.

The Month in Review

- U.S. economic growth for the fourth quarter of 2012 wasn't as bad as the Commerce Department's initial estimate. The department's revised estimate showed gross domestic product up 0.1% rather than down by that amount; the final figure will be announced in April. The number is still dramatically lower than the previous quarter's 3.1%. Lower defense spending, local and state government cutbacks, and reduced inventories and exports offset increased home construction and consumer spending.
- Businesses added 157,000 new jobs in January, according to the Bureau of Labor Statistics' February report for January. However, unemployment edged upward slightly to 7.9%. The unemployment rate has now remained within one-tenth of a percentage point of that level since last September.
- The eurozone's GDP fell by 0.6% in Q4 2012, and was 0.9% lower than a year earlier. The European Commission (the eurozone's executive body) forecast a 0.3% contraction in the eurozone this year, and only 0.1% growth for the entire European Union, though it expects expansion in 2014. In Italy, the defeat of Prime Minister and austerity advocate Mario Monti raised questions about how the country's parliament will form a coalition government and whether new elections would be needed soon.
- The Federal Open Market Committee reaffirmed its plan to continue buying bonds, but directed its staff to report at the March meeting on options for winding down purchases whenever employment reaches an acceptable level.
- Home prices in the 20 cities measured by the S&P/Case-Shiller index were up in December; the 0.2% increase made 2012's 6.8% gain the best calendar-year growth since 2005, though the average price nationally is still almost 30% below its 2006 peak. Also,

sales of new homes soared 15.6% in January; the Commerce Department said sales were at their highest level since July 2008 and almost 29% higher than a year earlier. Meanwhile, home resales also were up 0.4% in January, according to the National Association of Realtors®, and tight inventories helped push the median resale price up 12.3% from a year earlier. New home construction, while 23.6% higher than the previous January, fell 8.5% during the month, though building permits for single-family homes rose 1.9%.

- Consumer inflation remained unchanged in January at an annual rate of 1.6%. However, the Bureau of Labor Statistics said a 39% jump in the cost of vegetables during the month helped push wholesale food prices up 0.7% in January, putting the annual wholesale inflation rate at 1.4%.
- U.S. retail sales bumped up 0.1% in January despite slippage in auto sales; the Commerce Department said sales were 4.4% ahead of the previous January.
- The U.S. trade deficit shrank to its lowest point in almost three years as a result of record December oil exports. According to the Commerce Department, the trade deficit fell more than 20% to \$38.5 billion. A nearly 20% reduction in defense spending on aircraft was largely responsible for the first decrease in new durable goods orders in five months. Though durable goods orders overall declined 5.2%, the Commerce Department said non-transportation orders were up 1.9%.
- American Airlines and U.S. Airways agreed to form the world's largest airline, and Berkshire Hathaway joined a private equity firm in plans to acquire H.J. Heinz. However, the purchase of a substantial amount of Heinz call options the day before the acquisition was announced prompted SEC and FBI investigations of possible insider trading through a Swiss account.
- The U.S. Justice Department filed suit against Standard & Poor's, charging that its ratings of certain mortgage-backed bonds prior to October 2007 were deliberately inflated.

Eye on the Month Ahead

Investors will keep an eye out to see whether federal budget cuts scheduled to start taking effect this month will begin to hurt the economy, and how governmental operations might be affected by expiration of the current funding bill on March 27. This month's Federal Open Market Committee will focus on how and when to wind down quantitative easing, and its March 20 announcement will be closely watched. In Europe, investors will want to see whether Italy's political parties can form a functional coalition.

Key dates and data releases: personal income/spending, U.S. manufacturing, construction spending (3/1); U.S. services sector (3/5); factory orders, Fed "beige book" report (3/6); business productivity, international trade (3/7); unemployment/payrolls (3/8); retail sales (3/13); wholesale inflation (3/14); consumer inflation, industrial production, quadruple witching options expiration (3/15); housing starts (3/19); FOMC meeting (3/20); home resales (3/21); home prices, new home sales, durable goods orders (3/26); final Q4 2012 gross domestic product (3/28); personal income/spending (3/29).

Data sources for non-equities performance: U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold, NY close); Oanda/FX Street (currency exchange rates). All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. Equities data reflects price changes, not total return.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indexes listed are unmanaged and are not available for direct investment.

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