CENTURION Asset Management

Market Letter – Q1 2012

The upswing in U.S. financial markets during the last quarter of 2011 continued through the first three months of 2012. The quarter produced a historically high return for investors in at-risk assets due to the backdrop of an improving economic situation around the globe. While overseas economies are not quite as stable as the U.S., we have experienced a level of stability that has calmed recessionary fears.

Following their meeting in March, the Federal Open Market Committee (FOMC) released a statement confirming signs of economic acceleration by way of changing their language from a "modest" to a "moderate" improvement. They also commented on the global finance minister's accommodative monetary policy, and acknowledged rising inflationary pressures due to an increase in crude oil and gasoline prices. Later in the statement, they countered the notion of inflation by stating their belief that long-term inflation expectations are stable.

Despite optimism that has been priced into the market the past two quarters, rising energy prices – namely oil and gasoline – have reminded us that we are not yet out of the woods. The fear that higher prices will cause a dampening effect on momentum in the U.S. economy is palpable, and caused a bit of sideways movement in stock prices the past few weeks. Consumers are fortunate to have escaped the seasonally difficult winter heating expense squeeze, but seem headed toward a headwind in the form of summer driving fuel expense burdens.

If the price of oil is our only tangible set back, then progress can still be made toward stabilizing and beginning to grow the economy. The effect on equity investing could be positive, a welcome sign for those baby boomers working toward retirement after a volatile ride in the past 12 years.

EQUITY MARKET[1]

Q1 2012 Equity Sector Returns*

	Value	Blend	Growth
Large	8.25	12.80	17.50
Mid	11.96	13.61	15.40
Small	11.65	13.03	12.54

Q1 2012 Indexes*

Stocks	
US Market Index	12.87
Global Ex-US Index	11.30
Developed Ex-US	10.89
Emerging Markets	13.44
Bonds	
Core Bond Index	0.26
Commodities	
Commodity Index	4.37

*All figures listed in performance percentage.

U.S. equity markets enjoyed robust returns across the board in Q1, regardless of market cap. Large, medium, and small market cap indexes performed within 1.3% of each other with an average market return of approximately 12% as measured by the Morningstar US Market Index[2]. (12.87%) Growth stocks, led by market behemoth Apple Inc., returned a whopping 16% while Value oriented equity investments returned 9%. Among sectors, Financial Services companies led the way, followed by Technology, and Consumer Cyclicals. The worst performing sector was Utilities by a wide margin.

Defensive stocks were big beneficiaries last summer during the "flight to quality" period, but that has reversed as investors seem more willing to take on risk and invest for the long-term in companies that show earnings growth and opportunity – namely the Tech and Consumer sectors. However, many are questioning the sustainability of the returns in Q1, and wonder if we have seen the market highs for the year.

FIXED INCOME MARKET[3]

Bond Indexes	3-month	1-Year	3-Year	5-Year
Core	0.26	7.94	6.28	6.50
US Government	-1.14	8.25	4.00	6.24
Corporate	2.62	9.14	12.20	6.94
Mortgage	0.71	6.68	5.44	6.51
Short-Term	0.50	2.55	3.30	4.21
Intermediate Term	0.77	7.35	5.88	6.66
Long-Term	-1.16	16.48	11.11	8.99
Global Government ex. US	-0.78	2.47	6.27	6.50
Emerging Markets Composite	5.16	6.19	16.53	7.80

Unlike equities, Fixed Income investments experienced widely divergent performance in Q1 2012. Treasuries underperformed Corporates, low-grade bonds, and even mortgage-back bonds, during the quarter. The Morningstar Core Bond Index[4] returned a meager 0.26%.

Interest rates rose across the yield curve with the greatest move coming in the long end of the curve. By example, the rate on the 10-year Treasury bond rose 31 basis points (0.31%) to 2.2%, and the 30-year note rose 40 basis points. This move in rates was the result of bond prices falling substantially (think see-saw, rates up, prices down, or the opposite) as noted by the Morningstar Long Term US Government Bond Index[5] which declined 3.66%.

In our next market letter, we will touch on the potential effect of the fracturing bond market, alternative investment portfolio opportunities, and review the mid-year performance figures of the markets.

Past performance is no guarantee of future results. Indexes are unmanaged, do not incur fees or expenses and cannot be invested in directly. Investing in sectors may involve a greater degree of risk than investments with broader diversification. International investments are subject to additional risks such as currency fluctuations, political instability and the potential for illiquid markets. Investing in emerging markets can accentuate these risks.

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[1] Morningstar, Market Commentary Q12012, 3-30-2012.
[2] The Morningstar U.S. Index is a broad based market index representing 97% of the U.S. equity market capitalization.
[3] Morningstar, Market Commentary: Quarterly Data Overview, 3-30-2012.
[4] The Morningstar Core Bond Index is a broad investment-grade index that includes the largest, most important sectors of the investment-grade U.S. bond market.
[5] The Morningstar Long-Term US Government Bond Index includes US Treasury and US Government Agency bonds with maturities of seven years or longer.