



## YOU CAN'T FIGHT THE FED A NOTE FROM JOE ROMANO



Never has this old Wall Street adage seemed more relevant than in the current market environment. Since QE3 (the third round of government bond buying by the Federal Reserve) was announced last October, the S&P turned in a 2012 full year return of approximately 15%, followed by a strong 10.6% return in just the

first quarter of 2013. As of this writing, the market is well into all time highs, with the Dow Jones standing firmly over 15,000.

Clearly, the rally has been surprisingly strong, surpassing the expectations of many. So the question now is, how long can this rally last now that stocks are up 23% in just six months since November 15? No one knows for sure, but to attempt to put this into perspective the current rally is rapidly approaching 200 days without a 5% pullback, recently surpassing the prior record of around 180 days back in 2010.

Just as we've written in prior newsletters (Summer 2012, Holiday 2012) that we felt this rally was more driven by artificial (Fed) stimulus than fundamentals, by the same logic we think a change in the Fed's accommodative stance, or in Wall Street parlance the proverbial "pulling of the punchbowl" could put a damper on the market's enthusiasm. Hence, we think the answer best lies with the Fed, and here at Romano Wealth Management we've been actively analyzing Fed statements and minutes. In the minutes of their last meeting released on May 22nd, they largely held steady, pledging to continue to hold the target interest rate near zero as long as unemployment remains above 6.5% and the outlook for inflation doesn't exceed 2.5%. However, the minutes also reveal one interesting thing that we took note of—that "a number of officials" said they were willing to taper bond buying as early as the next meeting on

June 17 and 18 if economic reports show "evidence of sufficiently strong and sustained growth." We also look to cues from the bond markets, where it seems some of this has begun to sink in. The 10-year treasury hit 2.135% today, up from 1.63% on May 2.

Today, more of just that kind of evidence surfaced, as consumer confidence hit its highest level since February 2008 and the Case-Shiller Home price index showed housing prices surging nearly 10% from a year ago. Counter intuitively, because the stock market is considered a leading indicator, it is exactly this type of "good news" that could actually send the market lower as investors anticipate it is the evidence the Fed needs to begin raising rates. That's not exactly the most bullish scenario.

Also consider the following. In an effort to generate yield, the number of bond funds that own stocks has hit its highest level in nearly 20 years. Sound reminiscent of a conversation you've had with your Romano Wealth portfolio manager lately? The Barclays U.S. Corporate High Yield Index recently closed at 4.97%, the first time in history the index closed below 5%. Not long thereafter, Apple issued \$17 billion of corporate debt with a whopping yield of 2.38% on the 10 year maturity. As a final example, farmland prices in the Corn Belt have quadrupled over the past decade to close to \$10,000 an acre at present.

So, as our wise founder and my father Dick Romano has taught me and all of us here, "We manage risk, not return." His words ring especially true in this environment, as our diversified client portfolios have participated nicely in the rally given their equity allocations. However, it is fair to say that we still maintain generous cash balances, because as we have discussed in prior letters it is difficult to fulfill bond allocations given the zero interest rate environment. Additionally, we are loathe to aggressively commit more capital toward equities given the strength and duration of the recent runup.

## YOU CAN'T FIGHT

So if you find cash balances in your accounts as we do in our own personal portfolios, rest assured that this is not a case of us not watching—rather, we've learned from over 50 years of bull and bear markets that sometimes, the best trade is no trade. In the meantime, fasten your seatbelt and enjoy the ride...

On behalf of all of us, thank you once again for your continued trust and confidence in our firm.

Sincerely,



Joe Romano, PRESIDENT

## MEET VEDA!



She's the pleasant voice you hear when you call Romano Wealth Management, or the person that welcomes you into our reception area. She's Veda Sidney, now entering her third year with the company and learning the intricacies of wealth management every day.

But there's more to Veda (a childhood nickname) than meets the eye or the ear. As a middle schooler she became interested in dance and by the eighth grade she was on her way to a dance career that captivated her and remains a part of her life.

Veda says, "If you are a dancer, you **have** to dance; it's a part of who you are, mind, body and spirit. It's that passion that moves you to work every day to become the best that you can be. She adds, "Dance gives you the opportunity to connect to the very core and deepest part of your body, then move from the inside, out".

At 14, her first professional experience was a series of performances during the summer in 60 schools, Ravinia and Barat College. Her senior year of high school she began studies with Joseph Holmes and Nana Shineflug in Chicago. She has performed and taught throughout Chicagoland as a member of the Joseph Holmes Dance Troupe, the esteemed Chicago Moving Company and on the faculty of the Chicago Dance Center, Gus Giordano Dance Studio and many others. Currently she co-teaches a dance class with Mary Ann LaJoie Sandroff.

Veda enjoyed the time she spent as a resident artist with Urban Gateways. She believes the arts are powerful and give children, teachers, and parents the opportunity to express their ideas and feelings in creative new ways.

She sums it up this way, "It's exciting to create art that moves people...something that opens minds and hearts...it's amazing and humbling."

Veda genuinely enjoys the interaction with our clients. "Working at Romano has been a very satisfying experience. Having the opportunity to talk to clients every day is a joy! Finding out how they are doing, how things are going in their life—that sharing means a lot."

## ROMANO PARTNERS WITH YOUTH JOB CENTER ON WORKING IN EVANSTON EVENT

Romano Wealth Management recently partnered with the Youth Job Center, the City of Evanston and Acquirent hosting an event for local business and community leaders. Romano client, Joe Flanagan, welcomed the group to his Evanston Acquirent offices.

Flanagan pointed out the benefits of living and working in Evanston and his goal to promote Evanston as a great place to do business. Joe Romano added, "Evanston has a unique blend of profit and not for profit businesses. They both employ lots of workers and that means economic development for the city."

Evanston's Mayor Elizabeth Tisdahl expressed concern that many young people graduate from high school and are not prepared to enter the workforce. That's where the Youth Job Center comes in, according to Executive Director, Sacella Smith. Smith emphasized that YJC is eager to work with local businesses to provide them job-ready youth who are ready to work as well interns who are funded in part by the Youth Job Center.



## ROMANO, OTHER INDUSTRY EXECUTIVES MEET AT FINRA CONFERENCE IN WASHINGTON, DC

Joe Romano, who was reappointed to the FINRA (Financial Industry Regulatory Authority) Small Firm Advisory Board earlier this year, recently participated in FINRA's annual conference in Washington, D.C.

The topic, Plenary: Compliance and Legal Trends, was led by FINRA Chair and CEO Rick Ketchum. Ketchum invited a panel of industry compliance executives, including Joe Romano, to discuss how changes to the regulatory landscape are impacting firms in their compliance efforts.

Other panelists included executives from Merrill Lynch, Wells Fargo Advisors, Macquarie Holdings and the SEC Division of Trading and Markets. Specific topics addressed the Dodd-Frank implications for derivatives and swaps, cost benefit release on fiduciary duty, the JOBS Act and market structure issues. Secondly the group also commented on the challenges and impact on compliance and how firms have evolved and responded to regulatory, business and technology changes.

Joe Romano spoke specifically on managing compliance at a small firm and custody issues.

All members discussed the biggest challenges for the next few years regarding the long-running credit crisis and a subsequent outlook for the future.

## NEW PORTFOLIO MANAGER JOINS ROMANO WEALTH MANAGEMENT

Owing to the growth of client assets at Romano Wealth, we felt the need to add an additional portfolio manager to our team. After an extensive search, we are very happy to announce that Scott Miller, a seasoned portfolio manager, has joined our firm and will be a member of Dick and Joe Romano's team.

Scott came to us in April after being at Charles Schwab for 7 years where he was responsible for \$300 million of portfolio assets. Prior to that he was with H & R Block Financial Advisors for 4 years.

We are confident that Scott will step right in and help us to provide the outstanding advice and service we take pride in.

Scott is a local product having grown up in Arlington Heights and earning his B.S. in Finance from Illinois State University. He and his wife, Kristine, have one son, Jack, a very energetic 2-year old.



JOE AND DICK ROMANO WELCOME SCOTT MILLER TO THE FIRM



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## ROMANO WEALTH MANAGEMENT CLIENT LIVING HIS DREAM



For long time Romano client Russ Leoni, each day of retirement is a “magical” one. After selling his Evanston based auto repair business seven years ago, Russ moved to Kissimmee, Florida, not to retire, but to enjoy sunshine and a snow-free lifestyle. Today Russ “works” (he doesn’t call it that) at the ultimate vacation spot, Disney World. As a “castmember” (a Disney word for employee) Russ is a security guard and one of the first people to greet you when you arrive at the Magic Kingdom.

Russ has been at Disney for seven years now and never tires of it, “I love seeing the kids and the wonderment in their eyes as they experience the most magical place on Earth.”

Russ is pictured here at the Polynesian Resort with his advisor Joe Romano and his wife, Natalie, as well as their kids Leo (7) and Tessa (4). He and the Romanos were later accompanied by Mickey, Minnie, Donald and Goofy at the Disney Character breakfast.