

April 2012

A Big Bounce

We are a quarter of the way through 2012, and it's already been an interesting year in the markets. U.S. economic indicators have been mediocre to positive, the European debt crisis seems to be well under control, and our Presidential elections haven't really gained steam yet; so what caused the impressive move in the stock market?

The U.S. stock market (as always, measured by us as the S&P 500) gained 12.6% for the quarter, immediately after an entire year when the market only returned 2.11% including dividends. It is interesting to note some components of the returns for each period.

First, it should be noted that the S&P 500 is a market weighted index – meaning that larger companies have more affect on the returns than do smaller companies. Generally speaking, the top 10 largest companies in the index make up roughly 20% of the market capitalization, meaning that the next 490 only make up about 80%.

However, that is not to say that all of the large companies move in lockstep. For instance, this year Exxon (the largest company in the index as of December 31, 2011) only gained 2.88% for the quarter. Needless to say, Exxon is no longer the largest company in the index.

Second, what is most interesting this year is the reversal of what we observed last year. For 2011, the Utility sector was up 14.83% as a flight to security, and lower interest rates, emphasized the safe dividend yields of utility companies. For the first quarter of this year, the Utility sector was the only one (of 10) sectors in the S&P 500 that had a negative return (-2.68%),

On the flip side, the Financial sector, which was down last year (18.4%), saw a nice bounce and is up 21.4% thus far this year. Of course, this bounce was off of incredibly low levels, and this sector is still down almost 65% (-64.6%) over the last five years.

So, the mixed performance, and wild swings of the market are simply indicators that we are no longer in a recession, but we are not yet in a statistically normal recovery. As always, quality will win out and patience will be rewarded.

Finally, we are please to announce that our new website is up and running. In addition to information about the firm, there are links to previous newsletters, other financial news websites, and your password protected account reports. Log on to:

www.paragoncap.com

Thank you for choosing Paragon as your investment management partner. As always, we are actively seeking new clients, so feel free to pass our names on to anyone who you feel might benefit from our services.

Regards,

Craig, Howard, Elizabeth, Ward & Ethel

A copy of our SEC Brochure (formerly Form ADV Part II) is available to you at anytime. This document describes who we are, what we do, and how we do it. Also, our Proxy voting policy is available to you at any time. If you would like to receive either of these documents, or inquire as to how your shares have been voted, please contact us at a phone number, or e-mail, listed below.

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