
Reaves Asset Management

What's Old is New

My colleagues were particularly anxious that I do another installment of sage investment advice and opinion, more so to forestall their having to do a piece than anything else. It is convenient and timely that I highlight the past several weeks of analysis and stock television footage leading up to an unsatisfactory conclusion at year's end: both Nebraska and Northern Illinois lost hard-fought battles to obviously better football teams. For good solid reasons I was rooting for the eventual losers, not rooting against the winners. Turning to the other sport, politics, I cannot tell if the weeks and months of "cliff" handicapping was worth the time and trouble of all those who participated. I don't even know if we went over the "cliff" or not, but I am aware that there are more battles (spending up next) to come. I do know that some people will pay at a higher individual tax rate in 2013 than in 2012. Excluding income taxes, individual taxes on dividends and most interest income was already scheduled to increase by about 4% in 2013 to pay for national healthcare.

As for my conclusions about the recently passed Federal tax changes, it seems clear to me that dividends and capital gains remain advantaged over interest income. The end result was far less terrifying than had been speculated by some who were anticipating that dividends would be taxed at ordinary rates. Importantly, dividends and capital gains are treated equally. While marginally less so than before, the basic premise of investing long term in solidly growing equities which also raise their cash dividends over time continues to resonate as an enduring strategy. We at Reaves Asset Management believe that an artful and careful stock selection process based upon industry and company fundamental research is a time-tested method to achieve favorable investment results over the long term.

While many utility equities in 2012 did not match the S&P 500¹ returns and while the performance of the utility indices was less than 1.4% for the year, our portfolio's² returns at Reaves Asset Management were stronger. We believe that our portfolio is well-positioned to meet the market contingencies that may arise in 2013, while (importantly) taking below-market

¹ The S&P 500 Index is a capitalization-weighted, composite index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The typical Reaves portfolio includes a significant percentage of assets that are also found in the S&P 500. However, Reaves' portfolios are far less diversified, resulting in higher sector concentrations than found in the broad-based S&P 500 index.

² Reaves performance data is the Reaves ERISA Composite and unless otherwise noted, all data is net of fees. The Reaves ERISA Composite reflects the dollar-weighted return of all corporate ERISA pension accounts with assets of at least \$1,000,000 under management for all periods presented. Returns are time-weighted and include the reinvestment of all dividends and other earnings, net of commissions. The ERISA Composite does not reflect all of the Reaves' assets under management.

risk. Should market forces in 2013 coalesce in anticipating a rise in longer-term interest rates by the Federal Reserve (although not now seemingly in the cards), we believe that many of our investments which have a long history of rising dividends could become especially attractive as surrogates for fixed income.

A peaceful and prosperous New Year is wished to all.

William A. Ferer
President, Director of Research

For further information contact:
Rowland O. Wilhelm, Jr.
Vice President, Director of Sales and Marketing
Reaves Asset Management
10 Exchange Place, Jersey City, New Jersey 07302
Telephone 201.793.2383
Fax 201.332.8593
rwillhelm@whreaves.com
www.reavesassetmanagement.com

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