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2013: The Year in Review and a Look Ahead

Dear Investor,

Happy New Year! With the turning of the annual calendar, now is a good time to reflect on the year just ended and consider what may happen in the year ahead.

Investors had good reasons to celebrate 2013, as U.S. stocks ended the year at all-time highs. The S&P 500 Index[1] gained nearly 30% its best calendar-year performance since 1997[2].

What was even more remarkable about 2013 was that stocks marched steadily higher with very little volatility. There were only five declines of 2% or more on the S&P 500 Index during all of 2013[3] and the Index has now gone 27 straight months without a pullback of 10% or more[4].

The stock market managed to avoid several potential potholes in 2013. Early in the year, investors shrugged off Congress's inability to avoid going over the so-called "fiscal cliff." Yet the ensuing automatic government spending cuts had little impact on the economy or stock prices. Later in the year, legislative ineptitude resulted in a partial federal government shut down. Again, stock prices continued to edge higher.

While 2013 was a great year for stocks, let's not forget that less than five years ago, the Dow Jones Industrial Average closed at 6,547.05, matching a low last seen on April 15, 1997[5]. After such a strong run, don't be surprised if we see some profit taking in the weeks or months ahead.

Within the fixed income markets, interest rates rose and bond prices declined. The yield on the 10-year U.S. Treasury note rose from 1.26% over the course of 2013, ending the year at 3.04%.[6] Uncertainty as to whether the Federal Reserve would begin to curtail its monthly bond purchases was finally resolved in December, and bond prices slumped further on the news. As with stocks, however, short-term declines are no reason to sell your bond holdings that have a history of providing more stability to a well diversified long-term portfolio strategy.

Looking ahead to 2014, I believe that the rising stock market and higher interest rates may be indicators of stronger economic growth to come. U.S. GDP growth has been on the rise, with third quarter GDP growth coming in at an annualized rate of 4.1%. While the economic recovery has been frustratingly slow over the past few years, there are reasons to believe the U.S. and global economies will continue to gain momentum in 2014. Here is what we know going into 2014:

1. Business and consumer confidence is resurging. Higher confidence will make businesses more likely to invest for the future, which bodes well for employment growth, the overall economy, and corporate earnings. Stronger consumer spending (which represents about 70% of economic activity) will also help fuel economic growth.
2. No fiscal drag from Washington. There are not any new anticipated tax increases under consideration at this point. The year-end budget deal that Congress reached was another positive sign that our government leaders are moving away from the brinkmanship that has plagued our nation over the past few years.
3. Economic engines of Europe and China are coming back on line which creates more opportunities for global growth. While U.S. stocks and bonds could experience some near-term volatility, international stocks may offer attractive opportunities. Valuations in developed international markets such as Europe are generally reasonable and there have been recent signs that many European economies are on the mend.

To sum up, I am grateful for the strong stock market returns of 2013 and hopeful that recent economic growth will lead to additional gains in 2014. As always, however, I will keep a watchful eye on your investments to help you position your portfolio for long-term success.

Best Wishes and Happy New Year,

Mike Ovshak
CFP®

[1] The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. All indices are unmanaged and investors cannot invest directly into an index. Past performance is not indicative of future results. Diversification does not assure a profit or protect against a loss in declining markets.

[2] Source: WSJ, page C3, January 2, 2014

[3] Source: WSJ, page A4, December 31, 2013

[4] Source: BTN Research

[5] The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. Also, source: CNNmoney at http://money.cnn.com/2009/03/09/markets/markets_newyork/.

[6] Source: http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yieldYear&year=2012