FPS
FINANCIAL, INC.

919 Old Highway 8 NW, Suite 400
New Brighton, MN 55112
651.633.2689 • FAX 651.633.2847
www.fpsfinancial.net

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First Quarter 2014:
Will warmer temperatures heat up the economy?

Dear Investor,

After an especially brutal winter, even the slightest indication that spring has arrived—at least that's what the calendar says—has been enough to lift spirits in our area. Not only did this winter's harsh weather test our mettle, but it also had a real impact on the entire nation's economy.

Retail sales slowed as icy roads and bitter temperatures kept many shoppers from visiting local stores. Frigid temperatures induced many people—even those in the South—to crank up their thermostats. The resulting heating bills further pinched many consumers' pocketbooks. The extreme cold, snow, and ice also slowed activity in weather-sensitive industries, such as construction and housing.

During the new year's first quarter, the stock market also experienced some stormy conditions. Market volatility increased and the S&P 500 Index [1] began the year with a 3.46% decline in January [2]. However, stocks recouped most of these losses in February. By quarter end, the S&P 500 managed to eke out a gain of 1.3%, its fifth consecutive quarterly gain.

In the bond market, the Barclays' U.S. Aggregate Bond Index gained 1.8% during the first quarter. Some bond market observers were anticipating that bond prices would continue to fall and interest rates would continue to climb, especially after the Federal Reserve announced in December that it would start curtailing its recent bond-buying program. Instead, the yield on the 10-year U.S. Treasury bond declined from 3.0% at the end of last year to 2.7% by quarter end.

Looking ahead, I believe there are several positive signs that our economy may gain further momentum later this year. Pent-up demand for consumer goods will likely be unleashed as the warm weather arrives, which should spark a rise in consumer spending. We are also seeing continued improvement on the unemployment front. The four-week moving average for new unemployment claims recently fell to 318,000, its lowest reading since computer issues artificially lowered claims in September of last year. Employers also added 192,000 new jobs in March and the nation's unemployment rate is now at 6.7%.

While I believe the outlook for the U.S. economy remains positive overall, uneasiness over the Fed's future efforts to unwind its stimulus program could lead to additional market volatility. It's also important to keep in mind that an unexpected geopolitical event, such as Russia's recent annexation of the Crimean peninsula, always has the potential to unsettle the markets.

Thank you for entrusting me with your investments. As always, please get in touch if you have any concerns about your portfolio or any significant changes in your financial circumstances.

With the welcome arrival of spring, I also hope you enjoy the opportunity to get outside with family and friends because you've definitely earned it!

Sincerely,

Mike Ovshak
CFP®

[1] *All indices are unmanaged and investors cannot actually invest directly into an index. Unlike investments, indices do not incur management fees, charges, or expenses. Past performance does not guarantee future results. 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. Diversification does not assure a profit or protect against a loss in declining markets.*

[2] *Source:* www.forbes.com