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Investment Summary
4th Quarter 2013

For the second consecutive year, most developed country equity markets delivered double digit returns, with U.S. stocks turning in a particularly strong performance. A year that began with congressional infighting, uncertainty over a stampeding budget deficit, sequestration, and proposals for higher taxes, concluded with some political cooperation and a gradually improving economy. The S&P 500 Index registered its best year since 1997, rising over 32%. The bull market is now in its fifth year, and has appreciated 195% since the recession ended in June 2009. The market has been supported by strong corporate earnings, with most market strategists projecting continued earnings growth and rising stock prices in 2014.

However, not all risk assets rose in tandem this past year. Public real estate investments (REITs) returned a mere 2% gain for investors, and gold experienced its first decline in 13 years (down 28%). Developing country stocks performed poorly as well, with the emerging market index registering a loss for 2013. The economic challenges in these less developed countries varied, requiring different corrective actions. In Brazil, policy makers have been battling problematic inflation, and have found their remedies to manage inflation can adversely affect growth. Greece's economic challenges are far different, and come in the form of deflation. Falling prices have been particularly damaging for Greece as they continue to work through substantial accumulated debt, while attempting to emerge from a multi-year recession.

The Federal Reserve, which had been stimulating the economy with low interest rates and bond buying programs (QE3), recently announced they will tighten monetary policy by "tapering" their bond purchases. In anticipation of this move by the Fed, 10 year U.S. Treasury rates rose from 1.8% to 3% over the course of 2013. The increase in interest rates resulted in price declines for bond investors, with holders of longer dated bonds seeing the largest price declines.

Economists are forecasting healthy global GDP growth of 3.6% in 2014, and Wall Street is estimating U.S. earnings to grow at a rate of 10%. Lastly, the transition of Federal Reserve leadership from Ben Bernanke to Janet Yellen will be completed by the end of January. While Bernanke and Yellen share similar philosophies, the markets will be watching for any changes in fiscal or monetary policy going forward