SPECIAL EDITION: 2013 In Review

Weekly Update – January 06, 2014

Now that 2013 is behind us, let's take a look at the events that shaped markets last year and consider what may lie ahead in 2014. 2013 was the year that investors finally became confident in the economic recovery and poured their enthusiasm into equities. Despite significant volatility, stocks soared to new heights, giving the S&P 500 its best year since 1997. For the year, the S&P rose 29.6%, the Dow gained 26.5%, and the Nasdaq did best of all, growing an astonishing 38.3%.[i]

Let's take a look at some of the major events that shaped 2013:

The Federal Reserve

The Federal Reserve was very active in 2013, and anticipation of the end of quantitative easing drove much of the market volatility. The Fed bought $85 billion in bonds each month in 2013, a move that was designed to hold down long-term interest rates and encourage spending and investment. As the economic recovery gained steam, the Fed began evaluating its options for cutting back on bond purchases in order to return to "normal" monetary policies. Investors reacted with fears that the end of the easy money party would cause waves in financial markets, but that nervousness was largely overblown.

After months of anticipation, the Fed finally announced a reduction in the pace of their bond purchases at the December FOMC meeting. Markets rose after the announcement because investors viewed it as a vote of confidence about the economy's strength.[ii]

Current Fed chairman Ben Bernanke will be stepping down at the end of January and the Senate is expected to confirm Janet Yellen, the current vice chair, as his successor. She is closely aligned with Bernanke and is widely expected to continue current Fed policies.[iii]

Budgetary Debates & the Government Shutdown

Political gridlock in Washington was another source of market volatility in 2013. After resolving the Fiscal Cliff in the first days of 2013, legislators were unable to agree on a deficit-reduction plan. This forced the federal government to institute across-the-board budget cuts designed to trim $1.2 trillion from the federal budget over the next 10 years.[iv]

Act II of the budgetary debates resulted in a political stalemate over how to fund the government, pushing the federal government into a shutdown. Despite dealing with a 16-day shutdown, investors stayed calm and markets rose sharply in the period immediately following the budget deal. Some estimates put the cost of the shutdown at $2 billion in lost productivity plus the cost of ripple effects across the economy.[v]

Fortunately, a bipartisan budget deal reached in December promises to remove a lot of the uncertainty that hung over markets in 2013 by alleviating a new round of sequestration cuts and stabilizing government funding through late 2015.[vi]

Though politicians will still have to tackle raising the Treasury debt ceiling in early 2014, we expect to avoid another showdown.

The Economy

The U.S. economy ended 2013 on a high note. GDP, a measure of economic activity, grew an estimated 4.1% in the third quarter, the fastest pace in almost two years. Though we don't have data on Q4 GDP yet, it's possible that sequestration and the government shutdown may have trimmed economic growth. On the positive side, some economists believe that 2014 may be the year that the economy really takes off.[vii]

The labor market also improved significantly in 2013, with unemployment dropping to a five-year low of 7% in November. Payrolls increased solidly in October and November, and weekly unemployment claims fell in the final weeks of December. What's better is that recent hiring trends show that gains were spread across both low-wage and higher-wage sectors. Much of the jobs growth we saw earlier in 2013 was concentrated in traditionally low-wage jobs.[viii] More well paying jobs mean that employees will have more income to spend, hopefully boosting consumer spending.

Despite rising mortgage rates, the housing sector is still booming. Home values have risen for 20 consecutive months as low rates and a shortage of housing inventory boosted home prices.[ix] Manufacturing proved to be another bright spot in the economy; U.S. factory activity held close to a 2-1/2-year high in December, setting the stage for continued growth in 2014. Though manufacturing accounts for only about 12% of economic activity, it's a key source of well-paying jobs and a big driver of the economic recovery.[x]

Company earnings rose for the fourth straight year despite weak demand and challenging conditions. Total earnings for S&P 500 companies in 2013 are estimated to increase 5.4%, painting a hopeful picture as we move into 2014. Investors were willing to pay outsized prices for those earnings results, pushing P/E rations, a measure of stock price to earnings, to an average of 15.4 from 12.6 at the start of 2013. By that measure, stocks became more expensive in 2013, but P/E ratios in the S&P 500 still remained below the 20-year average of 16.5.[xi]

Looking ahead, we're optimistic about 2014. Though stocks exhibited a bit of a hangover in the first days of the New Year, the decline was not surprising, and the rally may continue after Friday's December jobs report. Even if stocks slow their pace of growth, we think there's still upside potential if the U.S. economy continues to gain steam and Q4 corporate earnings reports are positive. While a pullback is always possible as investors consolidate their positions, January has been a historically good month for markets.[xii] Although it's impossible to predict market trends with accuracy, we're always on the lookout for both dangers and opportunities for our clients, and we look forward to supporting you in the year ahead!

ECONOMIC CALENDAR:
Monday: Factory Orders, ISM Non-Mfg. Index
Tuesday: International Trade
Wednesday: ADP Employment Report, EIA Petroleum Status Report, FOMC Minutes
Thursday: Jobless Claims
Friday: Employment Situation

Data as of 1/3/2014	1-Week	Since 1/1/13	1-Year	5-Year	10-Year
Standard & Poor's 500	-0.54%	-0.92%	25.49%	19.31%	6.52%
Dow	-0.05%	-0.64%	22.99%	16.46%	5.82%
NASDAQ	-0.59%	-1.07%	33.26%	30.63%	10.59%
U.S. Corporate Bond Index	0.36%	0.19%	-4.32%	4.00%	0.60%
International	-0.89%	-1.67%	15.39%	12.87%	7.91%
Data as of 1/3/2014	**1 mo.**	**6 mo.**	**1 yr.**	**5 yr.**	**10 yr.**
Treasury Yields (CMT)	0.02%	0.10%	0.13%	1.73%	3.01%

Notes: All index returns exclude reinvested dividends, and the 5-year and 10-year returns are annualized. Sources: Yahoo! Finance and Treasury.gov. International performance is represented by the MSCI EAFE Index. Corporate bond performance is represented by the DJCBP. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

HEADLINES:

Bernanke: Economy is recovering, but still has far to go. Fed Chairman Ben Bernanke spoke at an economic summit and gave an upbeat assessment of economic fundamentals, though he cautioned that the recovery is not complete. He also reiterated the Fed's commitment to supporting the economy through accommodative monetary policies for as long as is needed.[xiii]

Consumer confidence surges. U.S. consumer confidences jumped in December on a more upbeat outlook for hiring and signs that the economy could accelerate in 2014. Optimism about the job market is at a five year high, which is a positive sign for spending in 2014.[xiv]

Fed says further QE cuts likely. Jeffrey Lacker, a top Fed official, said that trimming $10 billion from the Fed's monthly bond buys was the right call and further cuts will be discussed at future FOMC meetings, if economic conditions warrant. Fed decision-makers will be carefully weighing labor market gains and other factors in their evaluations.[xv]

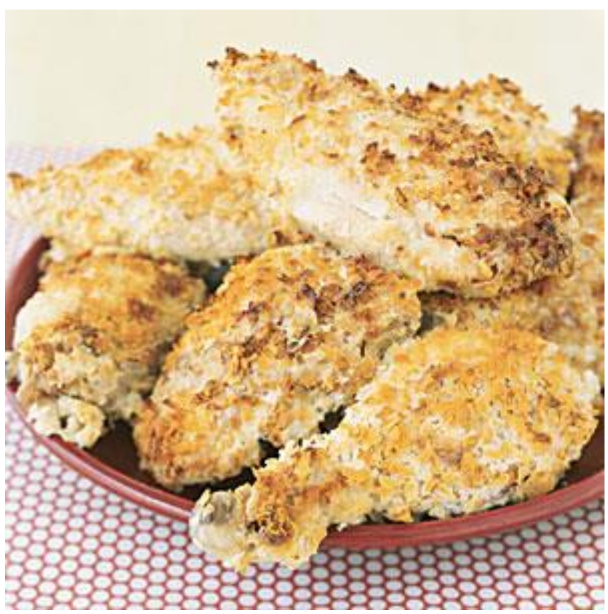
U.S. construction spending hits five-year high. November construction spending increased to the highest level since March 2009, the eighth straight month of gains. Spending gains in private construction of residential and nonresidential projects drove most of the gains and indicates continued strength in the housing sector.[xvi]

QUOTE OF THE WEEK

"The ultimate lesson all of us have to learn is unconditional love, which includes not only others but ourselves as well" - Elisabeth Kubler-Ross

RECIPE OF THE WEEK

Fake-and-Bake "Fried" Chicken



An old family favorite made easy. Recipe from RealSimple.com.

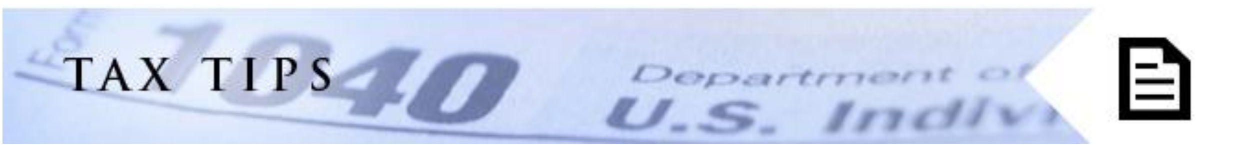
Ingredients:

1 3 1/2- to 4-pound chicken, cut up and skin removed
1 cup ranch dressing

2 cups instant potato flakes

Directions:

1. Heat oven to 450º F.
2. Coat a baking sheet with vegetable cooking spray.
3. Lightly brush the chicken pieces with the dressing, then roll in the potato flakes. Arrange on the baking sheet and place in oven.
4. Turn down oven to 350º F and bake 25 minutes or until the juices run clear when the chicken is pierced with a fork.



Taxable Rental Income

If you have a rental property, or are renting rooms in your residence, there are a few things you should know:

Rental property income includes all advance and current rental payments as well as penalty fees, e.g., fees charged for late payments. Money resulting from cancellation of a lease and any forfeited security deposits are also considered rental income. Any property or services you receive in lieu of rent should also be reported at their fair market value.

For more information about rental income, speak to a tax professional or read **IRS Topic 414 - Rental Income and Expenses.**

Hit the Ball, Not the Ground

If you are getting a high and weak flight you might be hitting the ground before the ball. Here’s a quick fix: Secure a scorecard three inches behind the ball. Then practice your swing until you miss the scorecard entirely and get a stronger contact with the ball.

End Junk Mail Overload

Dump the junk and save a tree; ending junk mail could save 100 million trees every year and reduce global warming. Junk mail also has high concentrations of heavy metals, making it difficult to recycle. Getting yourself off of direct mail lists isn’t hard. Two sites are available to help decrease junk mail: Stop credit card offers and insurance solicitations with **optoutprescreen.com** and stop unwanted catalogs at **catalogchoice.org.**

Cinnamon, More Than a Spice

Enjoy flavored coffee? Before you brew your first cup of coffee in the morning, add cinnamon to the coffee grounds. Commercial flavored coffees may contain sugar and chemical additives and are frequently made with lower-quality coffee. Cinnamon is rich in antioxidants and may reduce blood pressure and lower stress.

Share the Wealth of Knowledge!
Please share this market update with family, friends, or colleagues.
We love being introduced!

Securities, advisory services, and insurance products are offered through Investment Centers of America, Inc (ICA), member FINRA, SIPC, a Registered Investment Advisor, and affiliated insurance agencies. ICA and iWealth are separate companies.

Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.
Diversification does not guarantee profit nor is it guaranteed to protect assets

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.
The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia.

The Dow Jones Corporate Bond Index is a 96-bond index designed to represent the market performance, on a total-return basis, of investment-grade bonds issued by leading U.S. companies. Bonds are equally weighted by maturity cell, industry sector, and the overall index.

The S&P/Case-Shiller Home Price Indices are the leading measures of U.S. residential real estate prices, tracking changes in the value of residential real estate. The index is made up of measures of real estate prices in 20 cities and weighted to produce the index.

The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

Google Finance is the source for any reference to the performance of an index between two specific periods.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decision.

Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

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By clicking on these links, you will leave our server, as they are located on another server. We have not independently verified the information available through this link. The link is provided to you as a matter of interest. Please click on the links below to leave and proceed to the selected site.

[i] Google Finance

[ii] http://www.philly.com/philly/business/20140101_In_2013__Wall_St__roared.html

[iii] http://www.reuters.com/article/2014/01/02/us-usa-fed-yellen-idUSBREA010WF20140102

[iv] http://www.cnn.com/2013/02/06/politics/cnn-explains-sequestration/

[v] http://www.washingtonpost.com/politics/federal-government-shutdown-cost-2-billion-in-lost-productivity-omb-report-says/2013/11/07/e883c3ec-47f2-11e3-bf0c-cebf37c6f484_story.html

[vi] http://nbcpolitics.nbcnews.com/_news/2013/12/26/22060687-obama-signs-budget-agreement

[vii] http://www.upi.com/Top_News/US/2013/12/23/IMF-US-economic-growth-likely-to-speed-up/UPI-37781387778400/

[viii] http://money.cnn.com/2013/12/06/news/economy/november-jobs-report/

[ix] http://www.ft.com/cms/s/0/22f59176-7224-11e3-9c5c-00144feabdc0.html#ixzz2pFrLb7Bt

[x] http://www.reuters.com/article/2014/01/02/us-usa-economy-jobs-idUSBRE9BP09A20140102

[xi] http://www.philly.com/philly/business/20140101_In_2013__Wall_St__roared.html#wTeMBtDVGwO8iDLz.99

[xii] http://www.cnbc.com/id/101303886

[xiii] http://www.cnbc.com/id/101309010

[xiv] http://www.sfgate.com/news/article/US-consumer-confidence-rises-on-better-job-outlook-5104328.php

[xv] http://www.reuters.com/article/2014/01/03/us-usa-fed-lacker-idUSBREA020QU20140103

[xvi] http://www.reuters.com/article/2014/01/02/us-construction-spending-idUSBREA010JT20140102