FINANCIAL SERVICES ADVISORY
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Be Thankful for What the Market Gives

October Market Review From Your Portfolio Management Team—November 14, 2013

It's hard to believe we are fast approaching the holiday season. It seems like only 2 weeks ago we were enjoying a pleasant summer—well, I guess the weather in the DC area has been pretty mild, so far. As we get to that time of year when we reflect on the past year at the accomplishments, setbacks, challenges, and joys, we must take time to appreciate the resiliency of the U.S. stock market. It has managed, in spite of all sorts of political headwinds and economic roadblocks, to grind higher and higher, carrying investors along with it.

The S&P 500 index posted a solid return over 4% in the historically difficult month of October and is up over 20% for the year. With the exception of emerging markets stocks, which remain negative for the year, it has been a good year for most stocks around the world.

October was also another decent month for bonds, as they try to rebound from their drubbing from the past spring.

As you can see from the table below, the money market levels are relatively low across the five FSA strategies. We have also reduced the bond allocation in most strategies, and in the strategies where we must hold bonds, we have shifted them to areas that will tend to do relatively well if rates are rising. We do continue to hold some traditional bond funds, since they have been rebounding, but if rates begin to move higher into year end, we will exit those remaining funds.

Strategy	Stock Funds	HY Bonds	Quality Bonds	Money Markets
Tactical Growth	57%	30%	0%	13%
Core Equity	60%	20%	N/A	20%
Conservative Growth	50%	20%	20%	10%
Income & Growth	40%	10%	47%	3%
Income	N/A	20%	72%	8%

Note: Allocation percentages are as of October 31, 2013 and are an average of all accounts within the objective. Individual account allocations may differ from these averages.

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An Early Look into 2014

The strong return for stocks this year comes as a bit of a surprise. Typically, the first 2 years of the election cycle are the weakest, so 2013 will definitely go down as a nice exception to the rule. In addition, this is the 5th year of the current bull market, which suggests we are getting pretty far along, so some caution is prudent. The government shutdown, along with the stress of the debt ceiling debate, also presented some hurdles for investors. Nevertheless, investors seemed to take these concerns in stride, while they focused on gradually improving economic numbers, along with an accommodative Federal Reserve.

Looking ahead into 2014, we see some crosscurrents. 2014 is the second year of the presidential cycle, and is also a more difficult year historically. 2002, 1998, 1994, 1990 all had significant market low points and each represented the second year of the election cycle.

In addition, as mentioned earlier, the current bull market rally is now in its 5th year, which suggests that we are in the later innings of this rally. While this fact doesn't mean that stocks will struggle in 2014, it does suggest that we should be very sensitive to any early warnings that stocks are rolling over.

Having said that, we invest according to the trends we see in the stock and bond markets. It is too early to determine if the great secular bull market in Treasury and corporate bonds (which began in 1981) is in the process of reversing, but this is definitely the worst stretch of performance for most bonds going back to the end of 2008. For the first time since 2008, money flows are leaving bond funds, so we continue to turn more negative on this asset class, even though there are certain areas within the broad bond asset class that continue to behave well. Those areas could get more interest from us in the months and years ahead.

While bonds of all types appear to be facing some headwinds, stocks continue to maintain solid uptrends. As a result, until we see some sustained pressure on stock prices, we will hold our stock positions and even add to them if we are given the opportunity.

We have much to be thankful for as we enter the holiday season. We appreciate your loyalty and friendship, and we hope you enjoy this busy time of year.

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