



Advice for Life's Changing Seasons

Photo by K Lynch

Mixed Messages from Washington Contribute Noise and Volatility

The bottom line: Stocks had a very good quarter, and bonds did OK. I think Joe Tarranova, the chief market strategist for VIRTUS Investment Partners put it best in his quarterly report: "The stock market continued to navigate through the headline risk". In the second quarter, Ben Bernanke disrupted the capital markets when he announced that the Fed might begin "Tapering" soon; he reversed his position last month based on the continued weakness in the economy. Of course, the market rallied on this weak economic news! The Fed chairman has been getting all of the press coverage that our elected officials crave, so naturally they create another debt ceiling crisis, and refuse to negotiate a solution. With all of

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"We are having a hard time
finding things to buy" –
Warren Buffett, CNBC
9/19/13

this confusion, it's a good thing we have Vladimir Putin to help us manage our foreign policy. You are not alone if you are confused and concerned about how all of these headlines will impact your investment decisions. Stock prices and interest rates remain volatility as investors react to the latest headline. Let's review the 3rd quarter performance figures, then step back and focus on two important fundamentals: the health of our economy, and your investment timeline.

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According to the Lipper data** published in the WALL STREET JOURNAL, U.S. small growth stock funds had a great quarter, returning 14.06%, while the more interest rate sensitive large value stock funds returned 1.71%. Growth stocks returned 10% in the quarter, while value stocks returned 3.2%. Small company stock funds led with a 9.8% return; midcap funds posted 8.3%, and large cap funds returned 5.1%. Overall, US stocks returned 7.3% in the third quarter, and are up 21.3% year to date. Global stocks rebounded from their second quarter losses, and were up 10.25%. Health and biotech stocks were the big winners, while Exxon Mobil, Verizon, AT&T, and Hewlett Packard hurt large cap value returns. If we look back beyond the third quarter to the mid-May market highs, the Dow Jones Industrial average is down 1.46%, and the S&P 500 Index* has returned 0.7%. Over this four and a half month period, small cap and NASDAQ stock have done better, returning about 7%. The debate about the more expensive, actively managed stock funds and the less expensive index stock funds rages on. Last quarter, the leading Small growth sector benchmark return was 14.06%, but only 22% of active managers beat this benchmark. In the large value category, 96% of active managers beat the 1.71% benchmark. I believe there is room for both active and passive management in every portfolio, especially in times of higher volatility.

On the fixed income side, short term bonds were up about 0.53% in the quarter. Intermediate bond funds were up 1.1% while long term bond funds lost 0.23%. Long term bonds and treasury protected bonds are down about 6.5% year to date.

Taking a longer view of the stock market's performance, the returns have been better than you might have expected based upon the crisis headlines we have been reading. For the one year period ending 9/30/13, U.S. stocks returned 18% to 34%. For the three year period, the returns were 14% to 20%. For five years, 7% to 14% and for ten years, 6% to 11%. Stocks do well, and outperform most other asset classes over longer periods. This is why your investment timeline is so important. If you are investing for a retirement date that is more than ten years in the future, try not to overreact to the volatility in the stock market on a month-to-month basis.

Our economy continued to improve through 2013, but at a glacially slow pace. Manufacturing is up slightly, but there is little or no payroll growth. The International Monetary Fund (IMF) just cut their global growth forecast for the sixth consecutive time to 2.9% for this year and 3.6% for next year. This is one more signal to the Federal Reserve that a quick exit from their bond buying would hurt a weak global economy. I believe we can expect continued slow economic growth, in the 2% to 3% range. The Fed will likely begin "Tapering" by year end, but move slowly forward. Shorter term interest rates will remain low, and both interest rates and inflation will move up slowly in the next two years. In this environment, stocks should outperform bonds over the next few years, However both asset classes will post returns lower than their long term averages. I expect stocks to return 7% to 9%, while bonds return about 3% in the next two to three years. Stocks may be considered "fully priced" right now; Warren Buffett is having a hard time finding any on sale. Weitz Partners Value Fund, a popular and successful mutual fund, is holding 27% in cash, versus their usual 10%. These experts seem to be holding their current stocks, and proceeding cautiously. You might consider doing the same.

Fidelity just announced they will be increasing the equity weighting in their Freedom Fund Series. Investors ages 40 to 50 may now have up to 90% of their fund in stocks. Fidelity has also determined that in spite of the increased volatility this may cause, stocks will do a better job growing retirement assets over the next decade than bonds. If you are using a Freedom Fund in your retirement account, you may want to pay closer attention in the coming months, and possibly adjust some of your other holdings.

I am pleased to announce that I have been selected as a 2013 Five Star Wealth Manager in New Hampshire. This award was presented to the top 2% of advisors who satisfied the 10 objective evaluation criteria including experience, client satisfaction, education & professional designations, and a spotless regulatory record. The research was conducted by Five Star Professionals, an independent research firm. For more information, see the article in the October issue of NEW HAMPSHIRE MAGAZINE.

Dennis P. Lynch

The views and opinions expressed are those of Dennis Lynch as of 10/11/2013 and are subject to change based upon market conditions. Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk. Past performance is not a guarantee of future results.

*The S&P 500 Index is a price weighted index of 500 actively traded stocks. Investments cannot be made directly into an index.

**Lipper, a division of Thompson Reuters, manages a mutual fund performance tracking and rating system. Lipper Indexes allow an investor to compare a particular mutual fund to other funds utilizing a similar investment style. A Lipper index is composed of the 30 largest funds of a given investment style. For more information about Lipper's methodology, visit their web site at

www.lipperweb.com/research/IndexComponents.aspx.