

Market Review and Outlook—December 6, 2012

One Down, Two to Go We survived the US elections, and now know who controls the White House and Congress. While the stock markets initially fell immediately after the elections, they more than recovered in late November. There are two remaining imminent uncertainties—how Congress and the White House will address year-end ‘Fiscal Cliff,’ and how they will address the Debt Ceiling, which is weeks away from being reached.

Foreign Uncertainties The weak European countries remain, well, uncertain. This week the authorities shared their view that 2013 will remain a depressed year for the continent, economically. There remain serious concerns in the Middle East, with Syria and Iran at the top of the list. China continues to work hard at orchestrating a ‘soft landing’ to its economy, bringing its growth rate down from the much higher levels of recent years without having it actually crash, bringing a recession to China.

Market Returns The table below presents trailing results for several major classes of mutual funds. The past three months brought modest results for bonds, and moderate results for stocks, with foreign stocks faring the best. The 10-Yr Avg column continues to show ‘normal’ annual results, masking how abnormal and highly volatile the path was.

Investors Remain Worried, About the Wrong Thing? US mutual fund investors continue to plow money from their money market funds into bond funds, despite their sky-high prices and miniscule yields. While this is very understandable from an emotional perspective, the longer this continues, the greater will be the pain when the bond market ‘corrects,’ falling in price towards more normal and healthy levels.

Constant Vigilance Today’s markets demand that investors pay close attention, not only to risks, but also to opportunities. Stocks carry risks, however the amount of risk in today’s stock prices is likely less than most investors recognize. Similarly, most investors are not aware of the level of risk in today’s bond prices, especially for Treasury bonds (and bond funds that hold any meaningful amount of Treasuries).

Broken Record While the headlines have obscured this, 2012 has been a very profitable year for stock investors, and even bond investors. As always, we recommend that investors closely monitor their allocation targets, and make indicated adjustments. We feel that it is never a bad time to review and rebalance if needed. Then prepare your New Years Resolutions, to manage your retirement savings in a way that concentrates in a disciplined path to managing your portfolio’s risks and opportunities.

Category	3 Months	Past Year	3-Year Avg	5 Year Avg	10-Yr Avg
Fidelity Cash Reserves	+0.00%	+0.02%	+0.03%	+0.79%	+1.82%
Intermediate Term Bond	+1.26%	+8.30%	+6.66%	+6.07%	+5.31%
Intermediate Muni Bond	+2.40%	+8.73%	+6.15%	+5.27%	+4.42%
Large-Cap Blend Stock	+1.70%	+13.99%	+9.48%	+0.32%	+5.91%
Mid-Cap Blend	+3.19%	+12.95%	+11.86%	+1.81%	+8.14%
Small-Cap Blend	+2.32%	+12.13%	+13.30%	+2.43%	+8.49%
Foreign Large Blend Stock	+5.98%	+11.44%	+3.20%	-4.67%	+7.09%
Natural Resources	+1.63%	-3.08%	+3.21%	-2.98%	+12.46%
Real Estate	-2.44%	+18.65%	+18.42%	+3.02%	+10.38%
Technology	-2.13%	+8.80%	+9.78%	+1.98%	+7.63%
Moderate Allocation	+1.77%	+11.05%	+7.92%	+2.08%	+6.02%

The data in this table comes from Morningstar, and is as of November 30, 2012

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