Market Review and Outlook—March 5, 2013

From One Deadline to the Next At the very last moment, Congress and the President adopted a plan to postpone/avoid the year-end Fiscal Cliff. Part of the deal includes the 'sequester,' automatic across-the-board cuts to various federal programs. These cuts began last week, and today the US stock market is setting record highs. Investors are apparently spending more attention on economic and corporate activity, and less attention at the endless infighting and partisan battles within the Beltway.

Foreign Uncertainties The weakness in Europe continues—last week, the Italian elections increased the tensions as 'fiscally responsible' political parties lost ground. That being said, economic growth beyond their borders enables Europe to muddle along, which has been the winning formula for the US for the past four years.

Beyond Europe, foreign affairs are largely positive at this time. Tensions remain in Syria and Iran; however, most other regions exhibit stable growth, especially in Asia and Latin America.

Local Promise Two significant positive factors are developing here at home. The US housing industry is finally and clearly recovering, which provides economic benefits both direct and indirect. The second positive factor is the low cost of energy, driven by the boom in shale oil and (fracked) natural gas production. These are game-changers, which have enabled the US to reverse some manufacturing outsourcing, and can produce a multi-year tailwind to US economic activity and productivity.

Market Returns The table below presents trailing results for several major classes of mutual funds. The past three months are marked by stalled returns from bonds. The past year brought great US stock results. Foreign stocks trail US stocks for almost every listed period, reflecting the current clouds overshadowing foreign stocks, and European stocks in particular. Note that bonds outperformed most stocks only in the five-year column—the other four periods saw 'normal' results, with stocks nicely outperforming bonds. At what point will the average investor remember this and redirect their dollars? That's the $64,000 question.

Rebalance, Rinse and Repeat The chart below shows extremely strong 3- and 12-month stock results. Disciplined rebalancing calls for sealing in some of these gains and setting them aside. This ensures that we have 'dry powder,' safe money to invest back into stocks should they fall from the current levels. We are also rebalancing our bonds, sealing in some of those gains and cutting the dollars in the riskier bond funds. This is our all-weather approach, which we feel should be followed like clockwork.

Category	3 Months	Past Year	3-Year Avg	5 Year Avg	10-Yr Avg
Fidelity Cash Reserves	+0.00%	+0.01%	+0.03%	+0.57%	+1.79%
Intermediate Term Bond	+0.22%	+5.13%	+6.27%	+5.81%	+4.95%
Intermediate Muni Bond	-0.47%	+4.02%	+5.31%	+5.61%	+4.03%
Large-Cap Blend Stock	+7.74%	+11.82%	+11.58%	+3.84%	+7.78%
Mid-Cap Blend	+10.30%	+12.92%	+13.13%	+5.53%	+10.31%
Small-Cap Blend	+10.76%	+12.93%	+14.23%	+6.58%	+10.76%
Foreign Large Blend Stock	+6.41%	+8.61%	+6.57%	-1.36%	+8.90%
Natural Resources	+4.14%	-4.92%	+5.19%	-2.63%	+12.18%
Real Estate	+7.53%	+15.76%	+18.77%	+6.52%	+11.16%
Technology	+6.04%	+2.04%	+10.69%	+6.55%	+9.93%
Moderate Allocation	+4.69%	+8.23%	+9.05%	+4.15%	+7.00%

The data in this table comes from Morningstar and is as of February 28, 2013.