Market Review and Outlook—June 4, 2013

A Good Time for US Stocks The US stock markets largely put the 2008-2009 financial meltdown behind them, setting new all-time records in March, and then throughout most of May. The chart below shows that all sizes of US stocks rose 8% in the past three months. Foreign stocks have not followed the same path, as in May they gave back most of their April gains. While foreign stocks in developed markets did OK, stocks in emerging markets lost money in the past three months. Natural resource stocks fell modestly, real estate gained modestly, technology did fairly well, and healthcare stocks leapt 13%. Precious metals fell sharply in the past three months, over 20%.

Not So Good for Bonds As greater attention has been focused this year on how the Fed will exit the 'Quantitative Easing' process of stimulating the economy through bond purchases, bond investors have (finally) become aware that their bond holdings could fall in value. The table below shows that stocks have outpaced bonds by about 10:1 over the past year—yes, even foreign stocks have returned more than ten times what municipal bonds returned. High-yield bonds had another fine quarter, returning over 2%, and have returned almost 14% in the past year.

Economic Update In the US, the political scene in DC continues to be a mess; however, the economic scene across the country is clearly showing signs of health. The housing industry is definitely recovering, and this has substantial positive carryover effects. Inflation remains very modest (at risk of being too low), and unemployment continues to move downward. The payroll tax boost began in January, and the sequestration began in March, and yet the US economy continues to chug along at a low, but positive, pace.

End of the World? Not Just Yet In 2010 two professors, Reinhart and Rogoff, released research which points to a tipping point when a country's debt level exceeds 80% or so of its GDP. Earlier this year coding and data errors were found in their research. While our debt:GDP levels are nothing to be proud of, the budget deal crafted at the start of the year, and a continuing recovering US economy, are helping us avoid dire times.

Rebalance, Rinse and Repeat After any quarter in which bonds fall and stocks rise 8%, don't delay—rebalance. That is what we are doing this month for our Gold clients, picking the flowers (US stocks) and feeding the weeds (bonds and foreign stocks). Unlike market timing, disciplined rebalancing is a dependable method of sealing in gains, reducing losses, and controlling volatility.

Category	3 Months	Past Year	3-Year Avg	5 Year Avg	10-Yr Avg
Fidelity Cash Reserves	+0.00%	+0.01%	+0.02%	+0.43%	+1.77%
Intermediate Term Bond	-0.41%	+3.35%	+5.52%	+5.95%	+4.57%
Intermediate Muni Bond	-0.81%	+2.31%	+4.62%	+4.79%	+3.69%
Large-Cap Blend Stock	+7.96%	+27.25%	+15.10%	+4.29%	+7.14%
Mid-Cap Blend	+8.07%	+30.36%	+15.31%	+5.33%	+9.30%
Small-Cap Blend	+8.03%	+30.24%	+15.35%	+6.44%	+9.64%
Foreign Large Blend Stock	+2.90%	+26.80%	+9.90%	-2.03%	+7.88%
Natural Resources	-1.35%	+12.52%	+6.33%	-4.77%	+11.24%
Real Estate	+2.91%	+15.72%	+15.87%	+4.81%	+10.33%
Technology	+6.59%	+18.41%	+12.14%	+5.22%	+8.34%
Moderate Allocation	+4.04%	+17.12%	+10.76%	+4.28%	+6.41%

The data in this table comes from Morningstar and is as of May 31, 2013.
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