Market Review and Outlook—September 6, 2013

Bond Investors Woke Up! After several years of market analysts pointing out that bond interest rates were at historic lows, and bond prices are dangerously high, in the past three months bond investors took notice, and began to sell their bonds. The catalyst was talk about the Federal Reserve Bank 'tapering,' reducing their program of mammoth monthly purchases of bonds, which has kept bond yields low and prices high. The table below shows losses (red) for both listed types of bonds over the past quarter (and year). High-dividend stocks, including real estate, also lost money during the quarter, almost 8%.

Stocks Moved Sideways Most of the three-month stock returns look boring, from -0.3% to +2.4%, however this modest range obscures the actual up and down weeks. Foreign stocks had slight losses, however emerging markets had a miserable quarter, losing almost 8%. Some of the emerging markets stock and bond losses were due to the bond news—the tapering is expected to lead to some investors abandoning these more volatile areas.

Silver Lining Many investors are missing the point. The Fed is considering tapering, reducing its bond market stimulus, precisely because the US economy and job market continues to improve, and is showing signs that it is not as necessary to continue to 'prime the pump.' Today's jobs report confirms our current path, continued growth, but slow growth. This is actually pretty good news for investors, for the continued slow rate of economic growth is preventing our economy (and markets) from becoming overheated and overpriced, despite a 4½ year market recovery.

The quarter's bond market losses are larger than we have seen for awhile, and likely is due to (typical) investor overreaction. Nonetheless, bond investors face a long-term headwind as interest rates are likely to slowly, but gradually return to more normal levels.

The global news is currently driven by the Syrian crisis. Situations such as these often lead investors to rush to gold, and indeed precious metal funds rose almost 8% in the quarter. Nonetheless, we prefer to avoid this emotion-driven sector in long-term retirement portfolios.

The market volatility continues to benefit disciplined investors, who regularly rebalance. When all of your investments move in lockstep, rebalancing provides no advantages. Viva, la volatility!

Category	3 Months	Past Year	3-Year Avg	5 Year Avg	10-Yr Avg
Fidelity Cash Reserves	+0.00%	+0.01%	+0.02%	+0.30%	+1.75%
Intermediate Term Bond	-2.43%	-1.35%	+3.23%	+5.60%	+4.62%
Intermediate Muni Bond	-4.17%	-3.17%	+2.00%	+3.78%	+3.57%
Large-Cap Blend Stock	+0.73%	+19.16%	+16.76%	+6.38%	+6.71%
Mid-Cap Blend	+1.38%	+24.43%	+17.80%	+7.31%	+8.38%
Small-Cap Blend	+2.43%	+25.12%	+19.33%	+7.94%	+8.73%
Foreign Large Blend Stock	-0.27%	+15.67%	+8.16%	+1.43%	+7.15%
Natural Resources	-0.29%	+3.85%	+6.42%	-1.27%	+10.71%
Real Estate	-7.71%	-0.47%	+11.66%	+4.62%	+8.64%
Technology	+4.47%	+15.62%	+15.00%	+8.37%	+7.40%
Moderate Allocation	-0.44%	+10.64%	+10.72%	+5.57%	+6.04%

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