Market Review and Outlook—December 10, 2013

Looking Good! The table below shows only gains for the past three months, and only two trailing losing periods out of the 55 listed. Those two periods were for the two bond categories, over the past one year. Every stock category has averaged an annualized return of more than 13% over the past five years. The Moderate Allocation category, with about 60% in stocks, also averaged over 13% for that period. The ten year column has very satisfactory annual results, also.

Economic Recovery While the pace remains subpar, the US economic growth has been very steady, and this has brought steadily job creation, falling unemployment rates, and rising corporate profits. Even consumer sentiment is on the rise. This positive news is especially notable, given the three-week federal government shutdown in October. The overall US economy barely noticed. Overseas, China appears to have successfully orchestrated a 'soft landing,' and there are increasing signs that Europe has turned a corner for its recovery.

The Fed Due to major concerns over the crippled economy, the Federal Reserve Bank in 2008 began dramatic efforts to stimulate the economy. These efforts have continued to this day, and the most recent item in the news is the QE, Quantitative Easing, by which the Fed regularly buys up tons of bonds, to keep interest rates low. In theory, this gives individuals and companies greater confidence to make purchases and boost economic growth. In June there were heightened concerns that the Fed would shortly stop its current QE program, and investors fled bonds. Those concerns have lessened, however we know that it is only a matter of time when the QE stimulus will end.

Big Picture While the table below indicates that stocks are the way to go, and bonds are for fools, it was less than five years ago when the table showed one-year losses of 40-58% for each stock category, while corporate bonds had lost only 7%, and municipal bonds had gained 3%. We like to continue to use bonds for safety, safety which is simply impossible with stocks. Furthermore, bonds can be managed to reduce the risk of painful losses when the QE program and other stimulus programs end.

Broken Record As we very regularly remind our readers, rebalance, rebalance, rebalance. Many stock categories have gained double digits in only three months. Fight the urge to 'let your winners run,' and rebalance. These recent great results should prompt you to review your target allocations, and rebalance to get back to your target levels. Seal in those profits!

Category	3 Months	Past Year	3-Year Avg	5 Year Avg	10-Yr Avg
Fidelity Cash Reserves	+0.00%	+0.01%	+0.02%	+0.17%	+1.73%
Intermediate Term Bond	+1.74%	-0.91%	+3.49%	+7.08%	+4.48%
Intermediate Muni Bond	+2.24%	-3.17%	+3.51%	+5.40%	+3.48%
Large-Cap Blend Stock	+10.87%	+30.05%	+15.98%	+17.04%	+7.16%
Mid-Cap Blend	+10.65%	+33.58%	+15.75%	+20.40%	+8.57%
Small-Cap Blend	+13.28%	+38.63%	+17.15%	+21.02%	+9.06%
Foreign Large Blend Stock	+11.42%	+21.69%	+8.69%	+13.44%	+7.50%
Natural Resources	+5.87%	+8.98%	+2.14%	+13.11%	+10.44%
Real Estate	+2.41%	+4.53%	+10.06%	+19.43%	+8.16%
Technology	+11.27%	+31.19%	+12.12%	+22.11%	+7.58%
Moderate Allocation	+7.14%	+16.48%	+10.27%	+13.29%	+6.29%

The data in this table comes from Morningstar and is as of November 30, 2013.
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