Market Review and Outlook—September 8, 2014

What is missing, below? There is only one figure in red below, indicating that of the 11 categories listed, only one hase lost money in the past 3 months, 1, 3, 5, or 10 years. That is pretty darn good. The 4-6% annual long-term returns from bonds are quite ordinary. The ten-year average annual return of 6% for Moderate Allocation funds (which hold about 60% in stocks) is a very solid long-term result. The multi-year figures from the stock fund categories have a fairly wide range of variations, reflecting the breadth of factors that affect different types of economies and stock markets and stock sectors.

The past calendar quarter was good for bonds, as the economy showed **further signs of steady recovery**. Investors surprised analysts by continuing to buy long-term government bonds, despite the clear future prospect of higher interest rates. Stocks enjoyed solid results during the quarter, with the best gains provided by precious metals, health-care stocks, technology, and emerging market stocks.

Stocks and bonds both advanced during the quarter due to continued increases in investor confidence. Investors become more confident due to continued positive economic news, including rising company profits. All of this can become a '**life-spiral,**' the opposite of a 'death-spiral,' as every piece of good news builds confidence, which can lead to more economic activity, which produces better news (such as decreased unemployment), and so forth. A more common phrase is a '**virtuous cycle**.' These cycles do not continue forever; however, they can last longer when the rate of growth is lower (I can walk for hours, but I have real limits to how long I can run). This recovery, which is notable in its low rate of growth, could become notable in its duration—we are already over five years into the recovery.

Overseas, geopolitics played Whack-a-Mole, with the Ukraine cooling a little, but Palestine and Iraq heating up. The bulk of the world, however, has maintained an above-average stance so far this year, economically.

Almost every quarter, I repeat the recommendation—rebalance, rebalance, rebalance. Stocks have outperformed bonds, and so rebalancing between your stocks and bonds is likely needed. We are getting closer and closer to the point of rising interest rates, so be VERY intentional in how you spread your bonds. While stock investors had painfully lost a portion of their life savings as of early 2009, US stock levels have more than recovered, although foreign stock markets remain lower than their prior highs. Despite incredible stock returns over the past five years, bonds have also delivered very respectable results. However, the question is always not what you should have done for the **past** five years, but what you should do for the **next** five years. When in doubt, review your long-term horizon and rebalance to it!

Category	**3 Months**	**12 Months**	**3-Yr Avg**	**5-Yr Avg**	**10-Yr Avg**
Fidelity Cash Reserves	+0.00%	+0.01%	+0.01%	+0.03%	+1.67%
Intermediate Term Bond	+0.85%	+6.19%	+3.67%	+5.30%	+4.56%
Intermediate Muni Bond	+1.09%	+7.89%	+3.88%	+4.59%	+3.77%
Large-Cap Stock	+4.10%	+23.27%	+19.07%	+15.43%	+7.89%
Mid-Cap Stock	+4.01%	+22.17%	+19.14%	+17.13%	+9.48%
Small-Cap Stock	+3.05%	+18.38%	+18.45%	+16.74%	+9.22%
Foreign Large-Cap Stock	-0.60%	+15.47%	+9.97%	+8.08%	+6.91%
Real Estate	+3.80%	+23.24%	+13.63%	+17.91%	+8.40%
Natural Resources	+2.85%	+18.54%	+4.77%	+9.40%	+10.19%
Technology	+7.25%	+28.44%	+18.13%	+16.23%	+10.59%
Moderate Allocation (60% stocks)	+2.45%	+15.49%	+11.87%	+10.96%	+6.70%

The data in this table comes from Morningstar and is as of August 31, 2014.
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