Market Review and Outlook—March 5, 2014

Stocks have see-sawed lately. US stocks ended 2013 with a strong December. In January, however, US stocks fell, but in February they charged upward. Foreign stocks had a flat December, bad January, but a good February. Bonds lost money in December, rose sharply in January, and rose a little in February. **The average investor, with a 'moderate allocation' approach, earned almost 3% in the past three months—a fine result.**

The Russia-Ukraine conflict is in the headlines this month. We are hopeful that calmer minds will ultimately prevail in this matter, and that there will be no persistent impact on stock or bond markets.

2013 brought a sea-change for investors, as they became much more comfortable with stocks, after shunning them for five years. This led to 'multiple-expansion,' investors willing to pay more for a dollar of earnings. Prior to 2013, the stock market gains after the 2008-2009 meltdown were tied primarily to earnings gains, not multiple-expansion. An additional incentive for investors to warm up to stocks is that, finally, bonds showed their vulnerability—many lost money in 2013. The painful conclusion many investors made from 2008-2009 is that bonds were reliable and stocks were guaranteed to disappoint. The recovery since then, and especially 2013, has shown investors that bonds are **often** reliable but **can** lose money, and while stocks can disappoint, they also can provide strong gains.

The results below show fine results in all (non-cash) areas for the past three months, and **good results for most stock areas for the past 1, 3, 5, and 10 years**. Technology in particular has performed very well, and while not shown, health stocks have done even better. Precious metals are up 18% in the past 3 months and yet down 24% in the past year! Ouch!

I have been pleased with the stock market pullback in January, as it reminds investors that stocks go down in addition to up, and it encourages investors to hold reasonable expectations. While there are good reasons for our economy to continue to expand at a modest pace, and for Europe to continue to recover from its Greece-led problems, January reminds us that **stocks can fall without a foreseen reason**. That is how it works. Embrace the uncertainty.

We continue to feel that the key to successful investing is to identify a suitable stock/bond balance, to stick to it, and to **rebalance regularly**. We continue to have a slight stock-bias at this time. Within stocks, we are using a 57/43 US/foreign balance. Within our foreign stocks, we are using a fairly high 31% commitment to emerging markets, despite the poor results in recent quarters. Within our bonds, we are allocating 65% to quality bonds, and 35% to opportunity, including a 15% allocation to high-yield bonds. We re-examine these detailed settings monthly.

Category	3 Months	12 Months	3-Yr Avg	5-Yr Avg	10-Yr Avg
Fidelity Cash Reserves	+0.00%	+0.01%	+0.01%	+0.10%	+1.71%
Intermediate Term Bond	+1.59%	+0.47%	+4.06%	+6.95%	+4.37%
Intermediate Muni Bond	+2.32%	-0.44%	+4.58%	+5.03%	+3.45%
Large-Cap Stock	+3.42%	+24.80%	+12.87%	+21.76%	+6.71%
Mid-Cap Stock	+5.06%	+27.43%	+12.79%	+24.92%	+8.28%
Small-Cap Stock	+2.88%	+28.91%	+13.45%	+25.95%	+8.60%
Foreign Large-Cap Stock	+2.49%	+17.15%	+6.59%	+17.14%	+6.49%
Real Estate	+8.97%	+5.92%	+8.96%	+28.07%	+8.04%
Natural Resources	+4.40%	+8.99%	-1.36%	+16.59%	+9.51%
Science/Technology	+10.31%	+36.53%	+11.28%	+25.08%	+8.18%
Moderate Allocation	+2.80%	+14.05%	+8.42%	+15.73%	+5.92%

The data in this table comes from Morningstar and is as of February 28, 2014.