Quarterly Update

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MORE COMING OUT THAN GOING IN – An average high income American couple that retired in 2010 will pay $156,000 of lifetime Medicare taxes but receive $387,000 of Medicare benefits, i.e., for every $1 paid in taxes, the couple will receive $2.48 in benefits (source: Urban Institute).

SO FAR, SO GOOD - 4 out of every 5 American males (80%) that reach age 65 as a healthy individual are expected to spend the remainder of their lives without suffering a disability (source: Society of Actuaries).

PLEASE SIGN UP - The White House has estimated that 2.7 million young people between the ages of 18-35 need to sign up for their insurance on the new health insurance marketplaces (to subsidize the higher expense of insuring older Americans), an average of 14,835 a day during the 6 month enrollment period that began 10/01/13 (source: ObamaCare).

WHAT KEEPS YOU UP AT NIGHT? - More than 3 out of every 5 Americans surveyed (61%) between the ages of 44-75 fear running out of money during their retirement years more than they fear death (source: Allianz).

These are the views of James Steen & Jason Pearson. No independent analysis has been performed and the material should not be construed as investment advice. Investment decisions should not be based on this material since the information contained here is a singular update, and prudent investment decisions require the analysis of a much broader collection of facts and context. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy.

Upon reaching the beginning of a new calendar year an impulsive trend takes hold and we see experts, and armchair experts, engage in the practice of predictions. It happens every year, it comes in various forms, and arrives with the dependability of your neighbors every time you risk getting the paper in your PJs. Some of these predictions are relatively innocuous, as few people are likely to adjust their savings or spending habits dramatically based upon the predictions. Others are a bit more esoteric and seemingly put out there for the shock value. Still others offer investment predictions that often result in outcomes both unexpected by the prognosticator, or unpalatable by the investor.

The best part about predictions in the "New Year" is that very few people let the inaccuracy of last year's predictions have any bearing upon their gusto for this year's prognostication. The issue is not really that their predictions have been so horrible, but rather that predictions of any kind in the market often have undesirable outcomes when an "of the year" moniker is attached. In my view, sound portfolio management should not be about predicting what will happen from now until the end of some Gregorian calendar that was established a few hundred years ago. My approach to investing is instead based upon finding leadership in the market, and attaching a discipline that offers rules for accepting that a trend is no longer working for me. My discipline is based upon the irrefutable economic principles of supply & demand, and dictates that I adapt into assets controlled by demand and away from those controlled by supply. In the end, this philosophy means that while others spend the month of January predicting, I spend the 12 months of the year listening to the market and adapting to changes.

With that said, 2013 will go down in the history books as the 10th best performing year for the US Equity market (as defined by the S&P 500 Index), and it was the 24th year since 1928 that the S&P 500 gained 20% or more. That's right, there have been 23 previous occurrences of the S&P 500 gaining more than 20% in a single year, which means roughly 28% of the past 86 years have seen gains of more than 20%. The last time the S&P 500 gained more than 20% in a single year was 2009 and before that was 2003.

That's all well and good, but more importantly, what does this mean for the coming year? Out of the 23 years following a 20% or greater return, 15 of the years have been positive and 8 of the years have resulted in losses for the S&P 500. In other words, about 65% of the time a year following a 20% plus return for the S&P 500 is a positive year. Further, there were 5 years the S&P 500 followed up a 20% plus year with another 20% plus year (1936, 1955, 1996, 1997, and 1998).

One of the major themes that is in place at the start of 2014 is the leadership of Domestic Equity. Out of the five broad asset classes that I track, Domestic Equity remains the top ranked asset class. In other words, this continues to be a strong area of the market and one that I will continue to focus on. Additionally, nearly 75 percent of all stocks trading on the New York Stock Exchange are in a positive trend today, which is to say that the majority of stocks continue to show positive trends. I should note, also, that all of the major equity indices continue to trade in a positive trend, which is another positive sign for the market.

If you have any questions about the particulars of your portfolio, or would like to discuss the potential opportunities that I have seen arise within the equity market, please give me a call.

Thank you for your business and support,

P.S. If you think this type of information would be of benefit to anyone you know, please share this communication with them.

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