February 11, 2014

Dear Fellow Investors,

The sound of clanking machinery was evidence that something was working pretty hard as we climbed higher and higher. To look down from here would make the bravest shudder with fear, and yet we still went higher. How much further would we go before the inevitable drop? Our anticipation was heightened by the firm belief we could not continue up forever.

I do love roller coasters and what they can teach those of us who invest. For instance, you may have no idea what kind of machine pulled those cars up so high, but the noise the machine made reassured you that gears were turning. Likewise, the stock market has reasons for going higher, but they are far less obvious. Unfortunately, the stock market doesn't have a short period of silence before the free fall. My suggestion is to listen to the "clanking sound" of profitability.

There are many reasons why stock prices move higher or lower. A company who has found a better way of serving people's desires certainly garnishes greater profit. In my opinion, the anticipation of company profit or loss should have a lot to do with changes to the stock price. When earnings are out of sync with profit or loss, it seems like a good time to pay attention.

During 2013 the stock market as measured by the Dow Jones Industrial Average rose by 30 percent. According to a January 31, 2014 report by Factset Earnings Insight, corporate earnings increased by 6.3% during the same period. The variance between stock price increase and profitability is causing some to speculate the market prices will move lower, and I agree.

Like the fun of a roller coaster draws people to face their fear, the potential for greater profit causes people to take on risk. For some, roller coasters are just not fun and those people should simply not ride them. For others, their faith in the machine steals their nerve.

I have faith in our system. Yes, there are flaws and some are significant, but millions of people go out into the world with an eye to producing something someone will want. Our investment managers try to find potential winners, allowing us to participate in their success. Of course, some may not want the wild ride, but for the rest of us greater profit is certainly possible.

Kindest Regards,

Bruce W. Woods
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Registered Representative, LPL Financial

THE WOODSHED
News and Commentary
From
Woods Financial and Insurance Services

January 31, 2014

The Dow Soars as Bonds Fall In Value
But What Is Next?

According to Google Finance, the **Dow Jones 30 Industrial Average** increased by **27.37%** for the year ending December 31, 2013. Bond values as reported by Bloomberg Financial declined **3.4%** over the same period. According to Bloomberg news, this is the first year on year decline in the bond market values since 2009. Although the increase in stock prices is impressive, it is important to know that average corporate earnings for the Standards and Poors 500 companies for 2013 increased by **6.3%** according to the Factsheet Earnings Insight report dated January 31, 2014. Opinions vary on the importance of this data, but it may be an indication of a "bubble" forming in stock prices.

Dump My Bonds and Buy Those Cool Stocks

The big stock returns in 2013 may cause investors to want more stocks and fewer bonds. Volatility is the nature of stocks. Before considering a ride on the "wild side" you should consider how you will react if your investments declined by 20% or more. The key is to work with me to fit your investments to your own tolerance of volatility.

Warnings and Opportunities In Each Letter

Getting news out to you is the purpose of my newsletters. I have been inundated with newsletters for as long as I can remember. Usually, I dump them without reading their message because frankly, I didn't see value in the typical "boiler plate" verbiage. Because of my prejudice against meaningless fluff in newsletters, I have tried to make mine different. With each newsletter, I try to lie out concerns I feel you need to be aware of as well as opportunities that may be beneficial. Frankly, the newsletter is the only way I can talk to all of you at the same time. Since your opinion of importance is critical, I expect you will reach out to my office if you want to discuss something that has peaked your interest. Through this kind of "partnership" we can ensure your investments are in line with your objectives and emotional perspective. As always, I am honored to serve you.

Unemployment

Unemployment as of December 31, 2013 as reported by the Bureau of Labor Statistics (BLS) in the U-3 & U-6 reports (**seasonally adjusted)** declined slightly to **6.7% & 13.1%** by the end of 2013. This good news is mitigated by the fact that the **"Participation Rate"** has again worsened. The BLS reported the Participation Rate dropped to **63.7%** for the month ended December 31, 2013**.** This is a terribly low participation, unseen for decades. (Remember that "Participation Rate" is the percent of people who are working or looking for work. A lower percent means more people have dropped out of that group.)