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"An investment in knowledge pays the best interest."

—Benjamin Franklin

Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas."

—Paul Samuelson, economist, and Nobel Prize winner

"Nothing enhances pleasures and blocks guilt like a looming cataclysm."

—Aleksandar Hemon, author

Dear Clients and Friends,

We are happy to enclose your 4th quarter and annual 2013 investment performance report for the period ending on December 31, 2013.

We've just entered the New Year, making it the perfect time to revisit 2013 and share some thoughts on how our team can help position your portfolio as we continue down the road in 2014.

There is no better place to start than to re-create the atmosphere that greeted investors at the conclusion of 2012. The country had just emerged from a bruising presidential election, and the fiscal cliff loomed large over the economy and the markets with the potential for a disastrous market correction.

Without any action by Congress, steep tax increases were scheduled to take effect, threatening to tip the economy into a recession again. At the midnight hour, Congress managed to craft a narrow bill that raised taxes for the wealthiest Americans—about 1%—while enshrining the Bush-era tax cuts as law for the rest of the population.

It wasn't the so-called Grand Bargain that some had dared to hope for.

Nevertheless, the economy sidestepped the fiscal cliff, a stiff headwind for the market was removed, and stocks roared out the 2013 gates, followed by what would be the best year for the S&P 500 since 1997, according to data provided by the St. Louis Federal Reserve.

Even better, the plunge into equities lifted the riskier S&P SmallCap 600 Index by nearly 40%, according to Standard & Poor's.

2013 Performance*		
Index	1 year %	3 year %
Dow Jones Industrial Average[1]	26.50	12.71
S&P 500 Index[2]	29.60	13.70
Nasdaq Composite[3]	38.32	16.33
S&P SmallCap 600 Index[4]	39.65	16.98
MSCI World ex-USA[5]	17.78	4.23
MSCI Emerging Markets[6]	-4.98	-4.50

Source: Wall Street Journal, MSCI.com

* For all of the indexes, past performance does not guarantee future results. See important disclosures at end of letter.

The three-legged stool

Many are asking, "Why did we see the emergence of a ferocious bull market when the economy is still limping along?" It's a great question. The short answer: 2013 turned out to be the year that bad news was good news.

Let me explain. First, the economy has been limping along since it officially emerged from the Great Recession late 2009.

With job growth in low gear and inflation even lower, the Federal Reserve embarked on a series of bond purchases, popularly called quantitative easing, or (QE) for short. Remember, by definition, rising bond prices equate to falling yields. The Fed's goal? Put downward pressure on yields in the hopes that consumers and businesses would borrow and spend, sparking job growth.

Reviews on the effectiveness of QE have been mixed, but one thing seems certain: The Fed's ultra-easy monetary policy has been a boon for the stock market.

Second, I wouldn't discount the impact from rising corporate profits. According to Thomson Reuters, earnings per share (EPS) for S&P 500 companies hit a record in the first quarter of 2013, and subsequently broke the record in the second and third quarters, respectively.

Moreover, analysts are forecasting another high in the fourth quarter. True, economic growth has been substandard, but very modest revenue gains, coupled with a very keen eye on expenses, have been a tailwind for profits.

That leads us to the third leg of the stool: Companies have more cash than they know what to do with, at least the major corporations. Given heightened levels of economic uncertainty and few opportunities to expand, companies are buying back stock (or borrowing at record low interest rates to finance purchases).

Yet it is not just the repurchases of shares that count, but whether companies are also selling new shares to the public. Howard Silverblatt, senior index analyst at S&P Dow Jones Indices, summed it up well in December where he said, "We are starting to see excess buying, where the repurchases outnumber the issuance, and therefore, reduce the share count. The lower share count leads to higher EPS, and the market likes higher EPS."

While the repurchase of company stock has underpinned the market, dividends have also sweetened the pot. S&P Dow Jones Indices estimates that companies returned a record $310 billion last year in the form of dividends.

Finally, though I hesitate to call this a tailwind, Europe has quieted down. Banking woes haven't been put to rest but the vicious headlines that swirled across the continent and created uncertainty in the U.S.; especially in 2012 were mostly absent last year. Think of it like the fiscal cliff—for now, a hurdle removed.

Bond market: Dancing to a different tune

Early gains in Treasuries were replaced by jitters that QE was on the verge of being reduced (tapered) by the Fed, and Treasuries responded accordingly. The 10-year Treasury yield, which began 2013 at 1.78%, ended at 3.04%. Not that rising yields did little to slow the equity juggernaut.

At the December meeting, the Fed finally announced it would reduce the $85 billion in monthly bond buys by a modest $10 billion, with promises of more tapering in 2014 if the economy cooperated.

Meanwhile, losses in corporate bonds were more muted, and high-yield debt, which hit a pocket of turbulence in the middle of the year, outperformed most bond classes.

That shouldn't come as a surprise, since an expanding economy has historically lent support to firms that are on the credit bubble.

The 2014 crystal ball

Baseball legend Casey Stengel once said, "Never make predictions, especially about the future." With that in mind, I'll cautiously peer into my crystal ball, however fuzzy it may be.

Everything that drove stocks to new highs in 2013 remains in place: super-low interest rates, expectations of further growth in corporate profits, and the belief that companies will continue to return cash to shareholders. Further, any acceleration in economic activity that might reduce QE could be supplanted by rising corporate profits, which might shoulder more of the heavy lifting.

Still, you may ask, aren't record stock prices setting us up for a fall?

BCA Research, a highly respected independent research firm, concluded in December that U.S. equity prices are no longer cheap—no surprise on that front. But they were quick to point out that "various valuation indexes suggest the market is either fairly valued or borders on slight overvaluation."

BCA added that there is a clear link between price-to-earnings ratios (P/E ratios) and the yield curve, or the line that plots yields (in this case, for U.S. Treasuries) from the shortest maturities to those that go out 30 years.

A steeper yield curve is indicative of better growth and very easy monetary policy. As such, it often coexists with expanding P/E ratios. That's a plus for stocks.

Brian Westbury, chief economist at First Trust, is taking an even more sanguine view, as he incorporates today low-rate environment into his models. Using a 10-year Treasury yield of as high as 4.5%, coupled with current profits, Westbury believes further gains may be in store this year.

Yet we're never really in the clear. Questions being asked include:

What will the Fed do? Will the shallow recovery in Europe take root, or will banking woes resurface? Will China continue to grow, or is an economic hard landing inevitable? Will conflict in Washington rock the boat?

Could we see new problems surface in the Middle East? Historically, geopolitical headwinds have proved to be temporary, but that doesn't eliminate the possibility of heightened uncertainty over a short time period.

More favorably, will faster capital spending take hold, supporting the economy? And how will the energy boom continue to underpin growth?

What this means for your investments

No one, and I mean no one, can accurately predict the future. I know that seems obvious, but we've all seen those late-night commercials for tools that claim to effectively time the market.

Could we have a correction in stocks that pull the major averages down by 10%-15% or more? It's always possible. Corrections have a way of catching the consensus off guard, creating unwanted anxieties.

Yet most of the time, we need not be overly concerned. Besides, washing out excess optimism can set the stage for further gains.

* We always stress that you must be comfortable with your portfolio.

* There is always some uncertainty when investing. As discussed in meetings and phone conversations, our goal is to help you mitigate that risk. But you must be comfortable with the level of risk you're taking as we set out to meet your objectives. If you are not, talk to me or your advisor to recalibrate.

* Stick to the plan. Markets rise and markets fall, but unless there have been changes in your circumstances you've hit milestones in your life, such as retirement, stay with the plan. For example, it was tempting for many to cash out of stocks in early 2009. But hindsight has proved that a wholesale deviation would have been costly.

* Rebalancing acts as an automatic governor. Last year's surge in equities may have knocked you out of alignment with your target stock and bond allocations. We are carefully reviewing your portfolios to consider taking profits on winners and selectively reallocate proceeds into fixed income and alternatives.

* Anxieties linger that we'll see further losses in bonds, but that shouldn't necessarily preclude income other alternatives asset classes. Furthermore, we have positioned your portfolio with this in mind.

* Don't discount international. Emerging markets have been underperformers over the last couple of years but the more developed economies in Europe have been stronger. The U.S. may or may not outperform the rest of the world in 2014, but over the longer term, I firmly believe that exposure to global markets is beneficial a helps to reduce risk.

I realize complacency can sometimes set in following a euphoric rise, but we can guard against that with a portfolio crafted with your objectives and risk tolerance in mind. We will continue to monitor and make adjustments to your portfolio as necessary.

I trust you've found the annual summary to be both educational and helpful. Should you have questions, want to schedule an appointment or want to discuss any other matters, please feel free to reach out to your advisor or anyone on our team.

As always, we truly value the trust you've placed in us, and we want to once again thank you for the opportunity to serve you.

Sincerely,

Scott E. Bordelon

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Important Disclosures

- Please note all figures with reference to returns are as of December 31, 2013. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.
- The economic forecasts set forth in this newsletter may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
- Stock investing involves risk including the risk of loss.
- High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.
- Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise and bonds are subject to availability and change in price.
- Barclays Aggregate Bond Index: is comprised of the Barclays Government/Corporate Bond Index, Mortgage-Backed

1. The Dow Jones Industrials Average is a unmanaged index of 30 major companies which cannot be invested into directly.
2. The S&P 500 Index is a capitalization-weighted unmanaged index of the stocks of 500 larger companies which cannot be invested into directly.
3. The NASDAQ Composite is an unmanaged index of companies which cannot be invested into directly.
4. The S&P SmallCap 600 Index is an unmanaged index of 600 smaller companies which cannot be invested into directly.
5. MSCI World ex-USA is an unmanaged index of companies in developed major countries, as defined by MSCI, Inc., excluding the United States. The index cannot be invested into directly.
6. MSCI Emerging Markets is unmanaged index of companies in developing market countries, as defined by MSCI, Inc. The index cannot be invested into directly.
