

Investor Insights & Outlook

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Monthly Market Barometer

1 Month, ending September 30, 2013. The U.S. Market returned 3.60% (YTD 20.93%).

The Morningstar Market Barometer provides a visualization of the performance of various stock market indexes. The color scale (red for losses and green for gains) allows you to assess which areas of the market performed strongly and which areas showed weakness for the time period analyzed. The nine-square grid represents stocks classified by size (vertical axis) and style (horizontal axis). There are three investment styles for each size category: small, mid and large. Two of the three style categories are “value” and “growth” while the central column represents the core style (neither value nor growth characteristics dominate). Large-caps account for the top 70% of the capitalization; mid-caps represent the next 20%; and small-caps represent the balance.



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Advisor Corner

High Country Capital Management (HCCM) is an independent registered investment advisor located in picturesque Southwest Colorado. Since 1995, HCCM has provided individuals, families, and institutions with unbiased, professional investment planning and advice. The firm is dedicated to helping clients achieve their financial and investment goals. We employ a disciplined,

systematic investment approach, and our only loyalty is to our clients.

Monthly Market Commentary

News in recent weeks has been all about the government shutdown and the even more worrisome prospect of violating the debt ceiling sometime later this month. A debt-ceiling violation could lead to the deadly combination of higher interest rates and a slower economy. In a world where markets swoon on a 20,000-job miss in monthly employment data (on monthly job growth of about 200,000), losing 800,000 government jobs in one shot is a very big deal. Although the market has been soft lately, it seems to have hardly grasped the potential of a longer-term shutdown. We have reached this crisis point so many times recently with no negative consequences that the market seems almost numbed to the potential pain. Relatively inflexible wage rates and the propensity of most consumers to keep spending despite short-term adversity all contribute to the economy's overall stability and slow growth rate. But a month-long government shutdown would likely cut GDP growth by at least 0.5% in a world of 2.0% growth.

Employment: Another negative consequence of the shutdown is that government agencies have stopped releasing statistics; the Bureau of Labor Statistics' official employment report is missing. The ADP employment report showed more of the slow, unsatisfying growth rates seen for the last several months, with private sector jobs growing by 166,000, up from the 159,000 jobs added in August. The report was a bit of a disappointment, as the consensus estimate was for 180,000 jobs to be added.

Housing: New home sales and housing starts slowed down in the face of higher rates, while existing home sales jumped ahead as homebuyers raced to close quickly before rates moved even higher. Even before the higher rates, housing data had begun to top out as land and labor shortages slowed home construction. This has caused many analysts to scale back their housing growth rate and GDP contribution for both 2013 and 2014.

Consumer spending: Month-to-month consumption data has shown improvement, but the much more reliable year-over-year data suggests more of the same for consumption and the United States economy. Year-over-year three-month averaged consumption growth

remained stuck in its slow and unsatisfying rut of 1.9% when adjusted for inflation. That remains well ahead of income growth of just 1.1%, with the higher payroll and income tax rates subtracting close to a full percentage point off of income growth. Income data is beginning to show some improvements that might help fourth-quarter spending data, but initial reports seem to suggest a softer holiday shopping season than last year.

Quarter-end insights: While the overall U.S. economy has been quite stable, the third quarter did bring a number of real surprises, some positive and some negative. In the positive camp, Europe appeared to move from recession into recovery. The U.S., Chinese, and European manufacturing economies appeared to pick up steam in the quarter. Better auto sales and production helped the data, as did some inventory rebuilding and general improvements in consumption from more confident European consumers.

On the negative side, U.S. interest rates continued to climb throughout most of the quarter. The U.S. 10-year Treasury bond approached 3% in the middle of September before settling back a little after the Federal Reserve decided not to taper bond purchases. However, despite this decision, rates are still substantially higher than they were a quarter ago and are unlikely to approach old lows. Although tapering is off the table for another month, it will happen at some point, and the market knows it. Morningstar economists expect the 10-year Treasury bond to reach the 3% to 4% range over the next year or so, and a tapering program of some type to begin in the next three or four months. Projections for the remainder of the year include GDP growth in the 2.00% to 2.25% range, inflation at 1.60% to 1.80%, and the unemployment rate at 7.10%.

A Brief Overview of ETF Providers

The exchange-traded fund industry has come a long way since the first ETF, SPDR S&P 500, was launched in 1993. U.S. ETFs closed August 2013 with just over \$1.49 trillion in total net assets.

An ETF is a passively managed index fund that strives to achieve a return similar to that of a particular market index. There are many factors that contributed to the increase in popularity of ETFs, including trading flexibility, lower expense ratios, tax efficiency with regard to capital gains distributions and, more importantly, potential diversification benefits. By buying a single unit of an ETF, investors can get exposure to all the securities that make up the related index—for example, the S&P 500. Here is a quick look at the three major providers in the industry.

iShares is the largest ETF provider in the world, with a 39.4% current market share and \$587 billion in assets as of August 2013. It was acquired by money manager BlackRock in 2009, and the impact of this transaction might have been seen in the recent SEC filing to launch its own actively-managed ETFs. iShares is best known for a varied and large product lineup, with a suite of ETFs that invest in municipal bonds, treasuries, and specific countries. In September 2010, iShares launched three new country-specific emerging-markets ETFs for China, Brazil, and the Philippines.

SPDR State Street Global Advisors manages the SPDRs family of ETFs and is best known for sector funds that track the S&P 500's sectors, including the most heavily traded ETF, SPDR S&P 500, as well as high-yield bond and mortgage ETFs. As of August 2013, it has approximately 22.7% of the total market share of the ETF industry, with \$338 billion in assets.

Vanguard is the third-largest provider of ETFs in terms of assets under management. It has aggressively increased its market share in the past few years, with a 1.5% increase during the past year, and it currently has a 19.4% market share as of August 2013. It is best known for having some of the lowest expenses among the industry's major players and has launched ETFs based on Russell indexes, as well as expanded its suite of equity indexes, while offering lower-priced

alternatives.

All the major ETF providers have offerings that suit the needs of a variety of investors. When deciding which ETF to invest in, consider important factors like expense ratios and brokerage commissions, since these can reduce the returns on any portfolio. In addition, make sure that your overall investment portfolio is diversified and that ETF investments are only used to complement existing investments, not replace them.

Diversification does not eliminate the risk of experiencing investment losses.

Top 10 ETF Providers by Market Share August 2013

Name	Market Share (%)
iShares	39.4
SPDR State Street Global Advisors	22.7
Vanguard	19.4
PowerShares	4.9
WisdomTree	1.9
ProShares	1.8
Market Vectors	1.5
Guggenheim Investments	1.1
First Trust	0.9
Schwab ETFs	0.9

Source: Morningstar Fund Flows, Morningstar Direct.

Holding an exchange-traded fund does not ensure a profitable outcome and all investing involves risk, including the loss of the entire principal. Since each ETF is different, investors should read the prospectus and consider this information carefully before investing. The prospectus can be obtained from your financial professional or the ETF provider and contains complete information, including investment objectives, risks, charges and expenses. ETF risks include, but are not limited to, market risk, market trading risk, liquidity risk, imperfect benchmark correlation, leverage, and any other risk associated with the underlying securities. There is no guarantee that any fund will achieve its investment objective. In addition to ETF expenses, brokerage costs apply. Fees are charged regardless of profitability and may result in depletion of assets.

The Risks of Over-Allocated Funds

Exposure to concentrated investments may increase the overall risk of a portfolio. As a rule of thumb, if a fund holds more than 30% of assets in one sector, you may be putting all those eggs in one basket. Take, for example, the dot-com bubble. Investors who loaded up on rapidly growing Internet investments probably lost a considerable amount of money when the bubble burst.

It is also important to consider the extent a fund is vested in its top investments. For example, if 25% of its assets are in the top three holdings, or a fund consists of 40 or fewer holdings, the fund could be a higher risk. Funds with investments concentrated in one country can be a risky proposition as well. A fund manager not only must pick good investments but also runs the risk of a souring economy. Country-specific risks become even more prominent when a fund involves investments in emerging markets. These economies are generally subject to a variety of risks

that can drive holdings southbound.

Concentrated investing is not for the casual or risk-averse. You can be exposed to substantially greater losses than those in the overall market, so be sure to evaluate a fund's holdings to determine the level of risk inherent when investing.

Keep in mind that diversification does not eliminate the risk of experiencing investment losses. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, and differences in accounting and financial standards. Keep in mind that concentrated investments are narrowly focused investments that typically exhibit higher volatility than the market in general. These investments will fluctuate with current market conditions and may be worth more or less than the original cost upon liquidation.

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