



Paul R. Ried Financial Group, LLC
Security for your future

A MESSAGE FROM YOUR FINANCIAL TEAM

Review - Second Quarter 2013

July 25, 2013

Dear Clients,

"If a man loses pace with his companions, perhaps it is because he hears a different drummer. Let him step to the music which he hears, however measured, or far away. "

--- Henry David Thoreau ---

It is said that the above quote from the book *"Walden; or, Life in the Woods"* is where the phrase "March to the beat of a different drummer" and other variations were derived. This phrase seems very fitting to the US Stock market so far this year, as US Stocks do seem to be listening to completely different music. The rest of the world's music has sounded much more downbeat.

In fact, many asset classes ended the 2nd quarter with negative returns for the year. As shown below, returns year-to-date through the second quarter were all over the board.

US Stocks¹ = 13.8%

Developed International Stocks² = 4.5%

Emerging Market Stocks³ = -9.4%

US Bonds⁴ = -2.3%

International Bonds⁵ = -7.1%

Commodities⁶ = -10.5%

Now, someone might look at the numbers above and see four assets with negative returns that they want nothing to do with. A second person might look at those same numbers and see four assets with negative returns that might be a bargain. Then again, a third person might look at all those numbers and see what appears to be just random numbers and not make any conclusions.

"It's not what you look at that matters, it's what you see."

--- Henry David Thoreau ---

As interest rates have risen over the past couple of months bond investors should remember to keep price volatility in context. Bonds, in contrast to stocks, have a defined maturity value which will be returned to investors at a set date, along with pre-set interest payments that will be paid along the way. It is only the ability of the borrower to pay, not the movement of interest rates, which will prevent the repayment of principal and interest.

As an investor, as long as your time horizon is not shorter than the maturity of the bonds, declining bond prices due only to increasing interest rates should be of little concern. The reality is that bonds will still mature at the same prices and pay the same interest payments as they were going to before rates rose. In fact, all else being equal, an investor who is reinvesting their interest payments would be better off, over the full term of the bonds, if interest rates increase rather than remain the same or decrease.

Why is that? Both investors' basket of bonds will mature at the same time with the same values and pay the same interest payments. The difference is that the investor who experienced increasing interest rates was able to reinvest the interest payments at higher rates. Meanwhile, the other investor had to reinvest payments at the same or a lower rate than they initially invested.

Fed Speak

In his speech on May 22nd, Ben Bernanke hinted at a plan for reducing the Federal Reserve's purchases of bonds. That sent interest rates sharply higher. Market participants seem to still be refining their ability to translate "Fed Speak"; that is, the very veiled way in which members of the Federal Reserve often convey what they really mean.

The market seemed to interpret Bernanke's comments to mean that the Federal Reserve was very close to completely ending the plan of buying \$85 Billion per month of Treasury and Mortgage related bonds. However, all that was actually said was that they may soon reduce the quantity of bonds that they would buy. This should not come as a surprise. After all, \$85 Billion per month comes to over \$1 Trillion per year. Since this year's federal deficit is "projected" at \$759 Billion, down from last year's deficit of \$1.08 Trillion, even a reduced amount of purchases would still represent a large percentage of total government bond issuance.

After global markets reacted negatively to Bernanke's speech, many Federal Reserve members began damage control to assure the markets that they did not plan to completely stop bond purchases until certain targets were met... targets which seem quite a ways off, including a 6.5% unemployment rate. If those members were not clear enough, Bernanke made his view on completely ending their "accommodative policies" of bond purchases quite clear. During a Q&A session at a recent House Financial Services Committee hearing, he said "I don't think the Fed can get interest rates up very much because the economy is weak, inflation rates are low. If we were to tighten policy, the economy would tank."

Having a Plan

The key to successfully achieving your goals and objectives continues to be having a well defined plan. This is a plan which takes into account the market environment, individual risk tolerances as well as your short and long-term goals.

We are here to serve you and are continually monitoring your individual fund management teams. Further, we are ensuring that your asset mix is properly aligned with your goals, objectives, risk tolerance and time horizon. If any of those aspects should change, it is important to keep us updated. However, it is also important not to let the economic concern of the hour dictate your investment strategy.

As always, should you have any questions, don't hesitate to e-mail or call our office.

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- S&P 500 index ² - MSCI EAFE index ³ - MSCI EM index ⁴ - Barclays US Agg Bond index ⁵ - Citi WGBI Non-USD index ⁶ - DJ UBS Commodity index

* Securities and investment advisory services offered Cetera Advisor Networks LLC, Member SIPC. Advisory services may only be offered by Investment Advisor Representatives with an appropriate Cetera Advisor Networks advisory services agreement.

FINANCIAL TEAM NEWS:

1. We are excited to introduce you to Tricia Dindinger. Tricia joins your financial team as our Front Desk Coordinator. She grew up in Juneau, Alaska and recently moved to Kirkland with her husband and two daughters. Glenda is on a summer sabbatical, and will return this fall in a different role on the team.
2. Paul, Tim and Adam recently returned from the Cetera National Planning Conference in Nashville, Tennessee. The conference was attended by over 600 independent financial advisors from over 42 states as well as over 45 Investment management companies.
3. Since January, your team has met with eighteen money management firms representing over 950 funds.
4. We were honored by Barron's* in their April 2013 issue as one of America's Top 1000 Financial Advisors for 2013. This is an honor which could not be possible without the continued trust and confidence you have in us as your financial team. Thank you!

*Please note that the results reported in this article should not be considered a guarantee of future performance or results.