SteelPeak Wealth Management
Quarterly Newsletter Q4- 2013

The US economy accelerated slightly in 2013, overcoming the drag from higher payroll taxes and a slowdown in government spending due to sequestration cuts. Estimated GDP growth averaged 2.3% for the year, compared to just 2.0% for the prior two calendar years. The improvement came in Q3, when growth jumped to 4.1%. Despite this recent improvement, the recovery that began in 2009 is one of the weakest in the post-war era.

A few indicators pointed to gradually improving conditions during the second half of 2013. Positive signs included job market gains, lower inflation, modestly rising wages, a revival in manufacturing, stronger auto sales, increased consumer spending, and improved corporate balance sheets and sustained business profits. The housing market also improved, although most of the gains in home prices and sales came earlier in the year. Rising stock prices and housing prices helped boost household net worth to a record level in Q3.

In emerging markets like Brazil and India, domestic demand fell and exports dropped as interest rates were raised to counter inflationary pressures. Showing the close relationship between policy decisions in developed markets and performance in emerging markets, the possibility of a US Federal Reserve cutback in bond buying hammered financial markets in many developing countries early in 2013. With the Fed keeping interest rates near zero for almost five years, investors have been forced to look elsewhere for higher returns, in part driving the boom in emerging markets. When Fed monetary policy eventually "normalizes", these global flows of capital may likely return to the higher rates and greater stability of the developed markets, possibly creating more volatility in emerging markets.

All major US market indices had substantial gains for 2013. The S&P 500 logged a 32.4% total return (including reinvested dividends). The NASDAQ Composite Index gained 40.1%, and the Russell 2000, a popular benchmark for small company US stocks, returned 38.8%, its biggest gain since 1993. The stock market's strong performance came with lower volatility, as measured by the VIX index, which fell for the second straight year to reach its lowest level since 2006.

The bond market finally "lived down to expectations" in 2013. The threat of rising interest rates, which most market observers have warned against for five years, finally materialized, pushing bond prices lower. The fall in prices drove total returns – the combination of yield and price changes – into negative territory, since low yields provided little or no cushion. The Barclays US Aggregate bond index lost 2% in 2013, only the third negative calendar-year return since the index started in 1976.

Last year's slump is almost certainly the start of a process that will take several years to run its course. As we have written many times over the past several years, the math for bond returns is clear: low and rising rates imply little or no room for rates to reverse course and fall, and thereby generate a price rise.

In our view, while bond returns don't look attractive, it is essential to remember why you own them. They are intended to dampen, or reduce, the overall riskiness of your portfolio. Holding some bonds in your portfolio means you lose less overall when the stock markets invariably correct downward. Also, as interest rates rise in the future, the higher yields that will be paid will offset the resulting price declines. The total return for bonds may therefore be much less frightening than the scenario of rising rates would suggest.

Finally, please keep in mind that, in our view, the key to investing success is a commitment to a suitable investment strategy and a long-term perspective. One quarter's, or even one year's returns – positive or negative – do not make or break a financial or retirement plan. As your financial advisor, we remain committed to helping you navigate these turbulent seas, on your way to achieving your goals. Please contact us at any time with questions or comments.

**Disclosures**

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*YTD returns as of December 31, 2013