PREMIER FINANCIAL PLANNING, INC.
Planning Makes It Possible[sm]
A Registered Investment Advisor

Year 2013 Commentary | *January 2014*

Santa Claus Came to Visit in 2013! Santa Claus evidently believed that U.S. investors were well behaved in 2013 and delivered a strong rally going into the end of the year. Many of the markets made new highs: the Dow had its best year since 1995, the S&P 500 has its best year since 1997, and Nasdaq joined the party with its best year since 2009.

What's in Store for 2014?

The Federal Reserve finally committed to start their process of tapering (reducing the amount of bonds they directly purchase each month). While mostly a symbolic move, dropping from $85 billion to $75 billion per month does indicate that the Fed sees signs of strength in the economy and signals to the markets their belief the economy is growing. Second, while the budget deal negotiated between Paul Ryan and Patty Murray does little to curb entitlement spending or reduce the deficit (the agreement actually calls for higher than scheduled spending), it does mean we will go two years without a budget showdown or discussion of the debt ceiling. The reduced uncertainty is something we view as being bullish for both consumer confidence and the markets.

Janet Yellen, who takes over as the Chair of the Fed in late January, has an unenviable job in front of her. The world knows the Fed could not continue their large-scale bond purchases forever but tapering, as it has come to be known, will have a tremendous impact. The Fed currently finances 60% of the U.S. deficit through their bond purchases. The risk of the Fed reducing their intervention is that long-term yields move dramatically higher. If long-term rates were to "normalize" (to the historical spread over inflation), it could cost the U.S. Treasury an additional $1 trillion in interest payments each year, ballooning the deficit. Higher long bond yields would also directly impact mortgage rates, hurting the recovery in the housing sector and jeopardizing growth forecasts.

Our expectation for inflation in 2014, based on the CPI (consumer price index) reported by the Bureau of Labor Statistics, remains relatively low at 1.5%. This should allow the Fed to stick to their plan of leaving short-term interest rates at or near 0% and lead to a steeper yield curve in 2014 (long-term yields much higher than short-term). This is healthy for the overall economy as long as long yields do not rise too much.

The Fed is confident that their policies are working, and for the first time since the financial crisis in 2008 ended, they have some evidence to back their claim. Third quarter GDP came in surprisingly above analyst expectations at 4.1%; only the second time in 4 years that quarterly growth exceeded the 4% level. It will take time to determine whether the strong growth was an anomaly tied to inventory rebuilding or if the economy is truly picking up steam, but the Fed is confident enough to slowly start reducing their market intervention. By sticking to a highly disciplined approach, it is our goal to keep investors from becoming their own worst enemy and to prevail in the long run by achieving their investment return goals.

December 31, 2013 Benchmark Returns*

	4th Quarter	2013
Large-Cap US Benchmarks		
Dow Jones Industrial	10.22%	29.65%
Standard & Poor's 500	9.92%	29.60%
NASDAQ Composite	10.74%	38.32%
Russell 1000 Growth	10.44%	33.48%
Russell 1000 Value	10.01%	32.53%
Small-Cap Benchmarks		
Russell 2000 Growth	8.17%	43.30%
Russell 2000 Value	9.30%	34.52%
Large Cap International		
MSCI EAFE (Local Currency)	6.00%	23.46%
MSCI EAFE (US Currency)	5.71%	22.78%
Fixed Income Indices		
Barclay's US Aggregate Bond	-0.14%	-2.02%
Citigroup World Govt. Bond	-1.24%	-4.56%
Real Estate Indices		
Dow Jones US Select REIT	-1.09%	1.22%

** Index performance is provided as a benchmark only. The performance of your individual portfolio will vary from that of any one index. Past performance of an index is never a guarantee of future results.*

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Set Realistic New Year Resolutions

As we reflect on the past year and look forward to the year ahead, we believe there are some timeless investment principles that, if applied, will help you successfully navigate the waters ahead.

- ***Do not believe the hype.*** This is true whether the hype is telling you valuations no longer matter or that the world is going to end. The “this time is different” argument is resurfacing. Whether it is Japanese stocks in the 80’s, technology stocks in the 90’s, housing in the 2000’s, or Fed liquidity today does not matter. Fundamentals will eventually carry the day and should they deteriorate, investor beware!
- ***Remain capital preservation minded.*** Managing risk is more important today than it has been since 2009. Hitting investment singles instead of swinging for the fences still makes sense. Remain diversified to offset risk and maintain sufficient cash reserves.
- ***Commit to a plan.*** Having well-defined goals is critically important today in designing appropriate portfolios. *It does not make sense to accept risk in greater measure than is necessary to achieve your personal required rate of return.* If you do not have a plan, make 2014 the year you invest the time and resources to chart your course. We’re here to help~!

Enclosed Investment Reports

4th Quarter and Annual 2013 Reporting:

- *Aggregate Overview; Current Value, Asset Allocation and Performance; summarized by Portfolio and Combined Portfolios, as applicable*
- *Holdings Analysis by Account; summarized by Asset, Account and Asset Allocation*
- *Portfolio Performance Detail by Account; summarized by Asset and Account for 2013 calendar year performance*
- *Statement of Fees* for the 1st Quarter 2014 (based on 12/31/13 values)
- *Disclosure Statement*

Please remember that this investment reporting is for informational purposes only and you should also refer to the investment statements you receive from your brokerage custodian. Benchmark returns listed on page one are per 12/31/13 Morningstar *reported values.*

We hope 2014 is a year that exceeds your expectations in every meaningful way. As always, we appreciate your continued confidence and trust. Should you have any questions or concerns, please contact us.

Best regards,

Patricia C Patterson

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