

Forecast 2014



2014

Where We've Been

- 2013 Performance
 - S&P 500 +30%
 - 10-year Treasury Yield @ 3%
 - Gold -28%
 - MSCI Emerging Markets -8%



“Expert’s” Opinion

- Blackrock’s Byron Wien
 - Gold will reach \$1,900/oz in 2013
 - S&P 500 will fall below 1,300
- Harry Dent
 - Dow Jones Index will fall below 5,000 in 2013
 - Finished year at 16,481
- Average Wall Street Bank S&P 500 price target: 1,543
 - Finished at 1,848
 - UBS predicted 1,425
 - Merrill Lynch predicted 1,600

“Expert’s” Opinion

- David Tepper, Founder and President of Appaloosa Management
 - “...guys that are short, they better have a shovel to get themselves out of the grave.”
 - Quote from CNBC “Squawk Box” interview
 - “If the Fed doesn’t taper back, we’re going to get into this hyper-drive market.”
- Called the stock market a “My Cousin Vinny” market
 - Reference to a popular 1992 film where evidence supporting his bullish case was overwhelming and undeniable

“Expert’s” Opinion

- 2014 Outlooks

Wall Street year-end 2014 targets for S&P 500

Strategist	Firm	S&P 500 target	% above Dec. 31 level
David Bianco	Deutsche Bank	1,850	0.2
Brian Belski	BMO Capital	1,900	2.9
Barry Knapp	Barclays	1,900	2.9
David Kostin	Goldman Sachs	1,900	2.9
Jonathan Golub	RBC Capital Markets	1,950	5.6
Andrew Garthwaite	Credit Suisse	1,960	6.1
Tobias Levkovich	Citi Research	1,975	6.9
Savita Subramanian	B. of A. Merrill	2,000	8.3
Adam Parker	Morgan Stanley	2,014	9.0
Thomas Lee	J.P. Morgan	2,075	12.3

Source: MarketWatch

The Fed Tapered, But...

- Federal Reserve announced their decision to reduce asset purchases by \$10 billion per month
- However...
 - Bernanke was quoted as saying, “The action today is intended to keep the level of accommodation the same overall...”
- Fed vows to keep interest rates unchanged until unemployment rate is below 6.5%



Meet the New Chairman

Chairwoman of the Fed

- Ben Bernanke will step down as Chairman at the end of January
- Janet Yellen will now take charge of the Federal Reserve
- First ever Chairwoman of the U.S. Federal Reserve

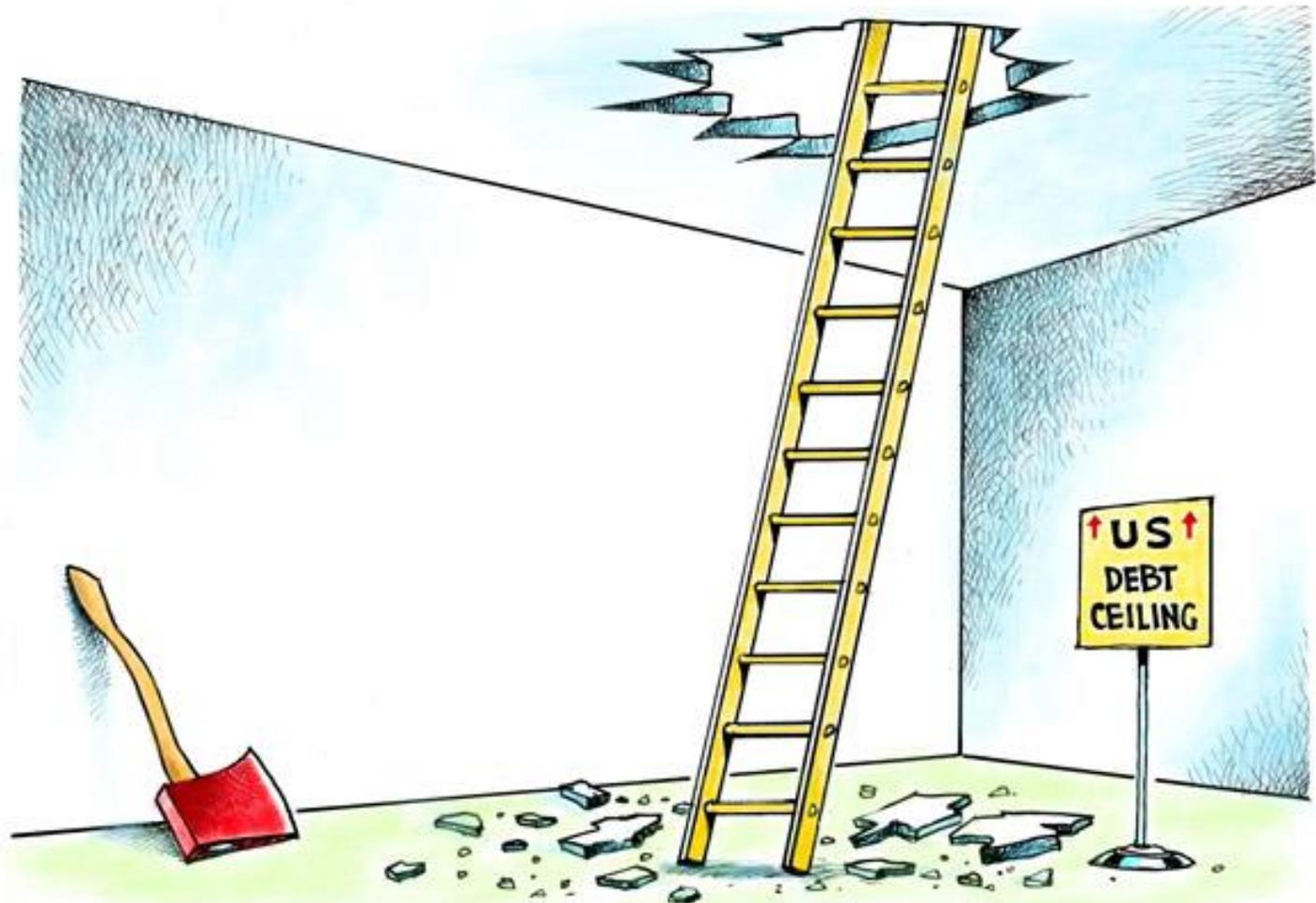


Government Shutdown = Speed Bump

- Shutdown sounded more scary than it was
 - Lasted 15 days from October 1-16
- Only 17% of government actually “shutdown”
- Since 1976, there have been 17 shutdowns
 - Including one lasting 21 days in December 1995 – January 1996



Government Shutdown = Speed Bump



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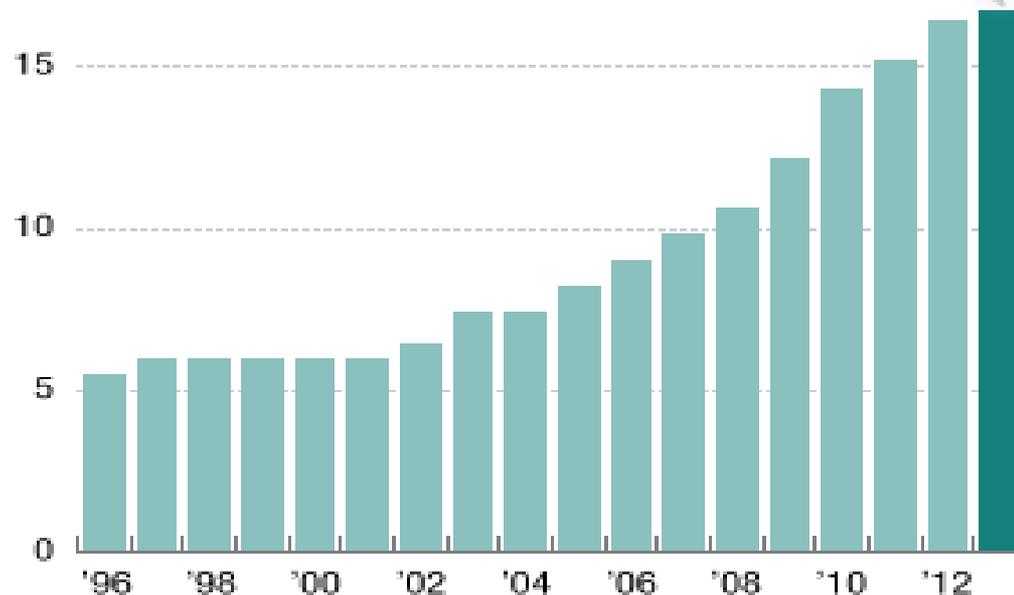
Government Shutdown = Speed Bump

- Debt ceiling suspended until February 7, 2014
- Allowed Treasury Department a window to theoretically issue as much debt as they want

Debt limit (end of fiscal year)

\$20 trillion

OCT. 2013: \$16.7 trillion



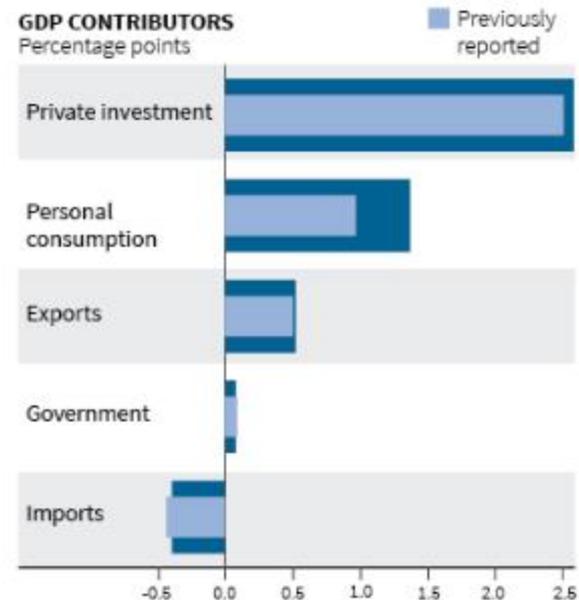
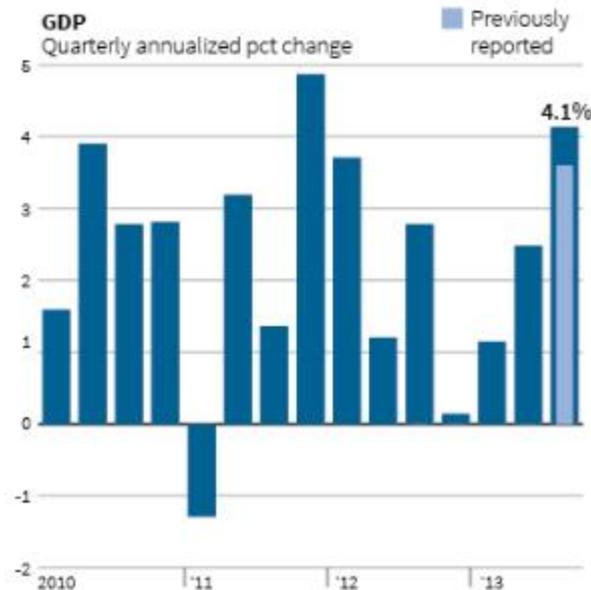
Source: Congressional Research Service; U.S. Treasury (Credit: Alyson Hurt/NPR)

Where We Are – Consumer Spending

- U.S. economy grows 4.1% in Q3
- Personal consumption showing significant improvement

U.S. third-quarter GDP revised up to 4.1 percent

The U.S. economy grew faster in the third quarter than initially estimated.



Source: U.S. Commerce Department

S. Culp, 20/12/2013

REUTERS

Jobs

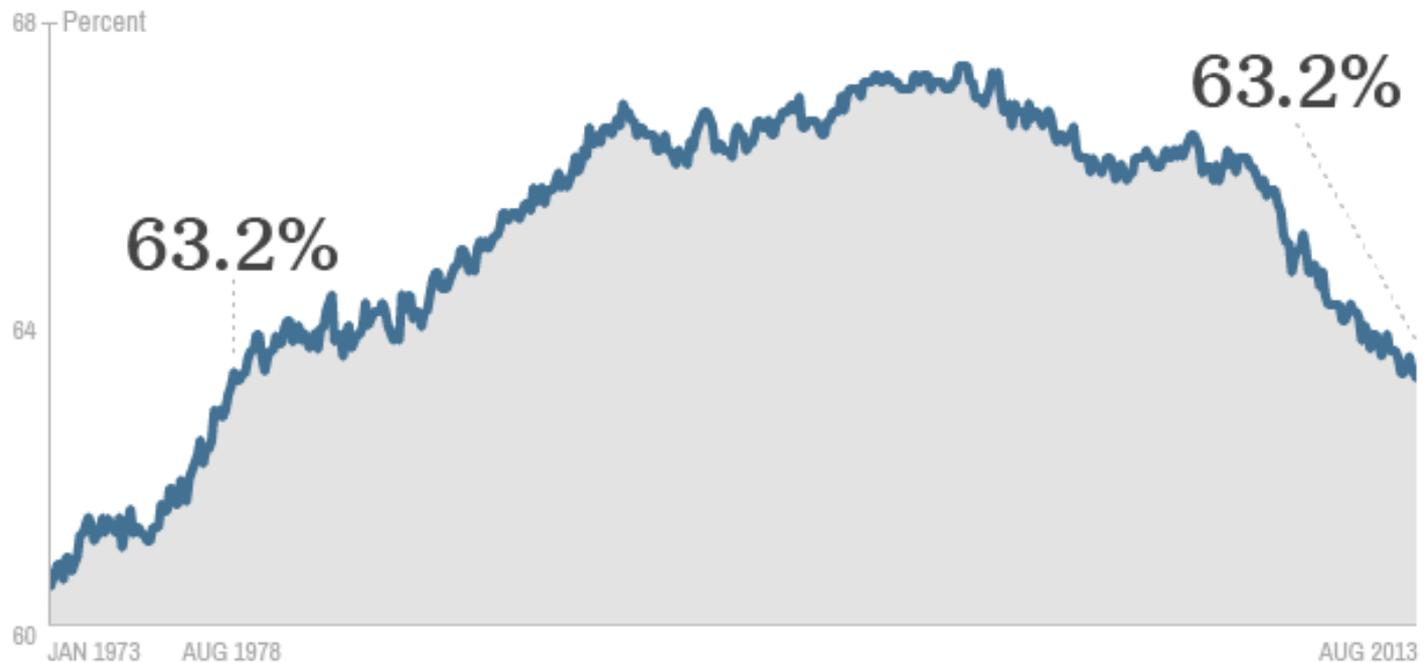
- Unemployment rate continues to decline



Jobs

- Labor force participation rate near multi-decade lows

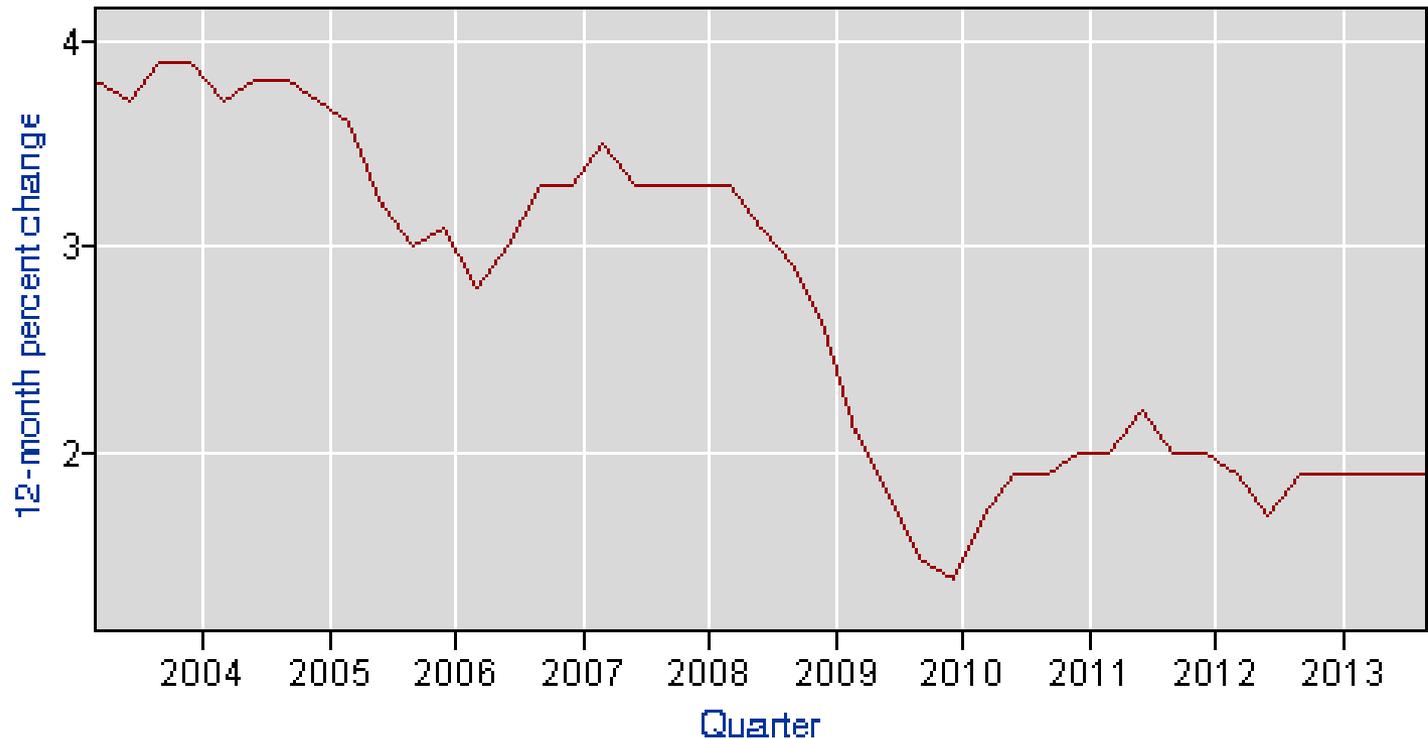
Labor force participation rate



Low Quality Jobs, Wages Stuck



Low Quality Jobs, Wages Stuck



Source: Bureau of Labor Statistics

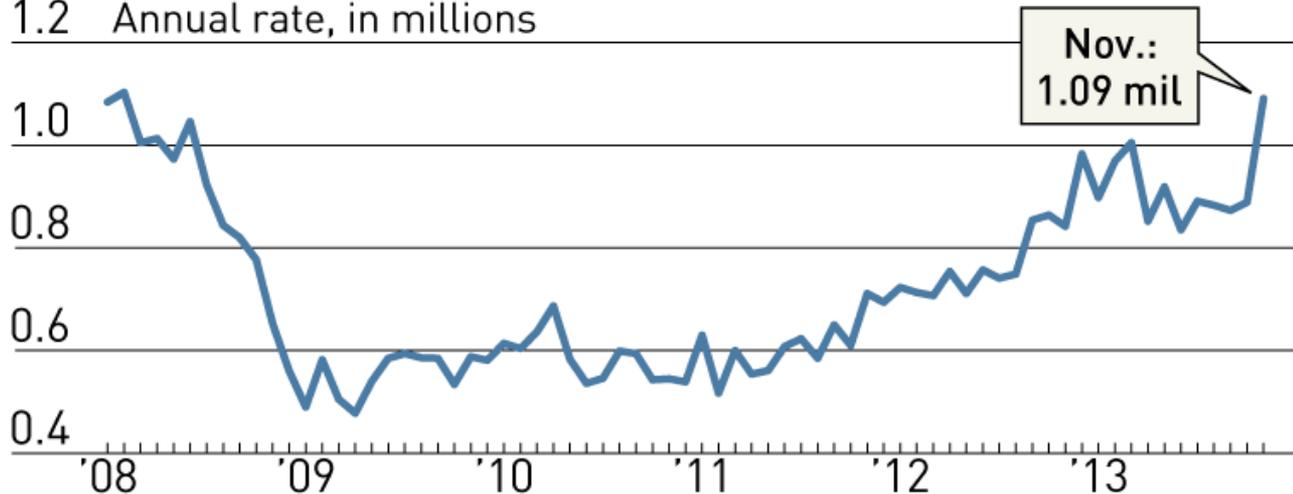
Housing

- Home construction at highest levels in almost six years

Housing Starts Through The Roof

Builders broke ground at an annualized rate of 1.09 million homes last month, the highest in nearly six years

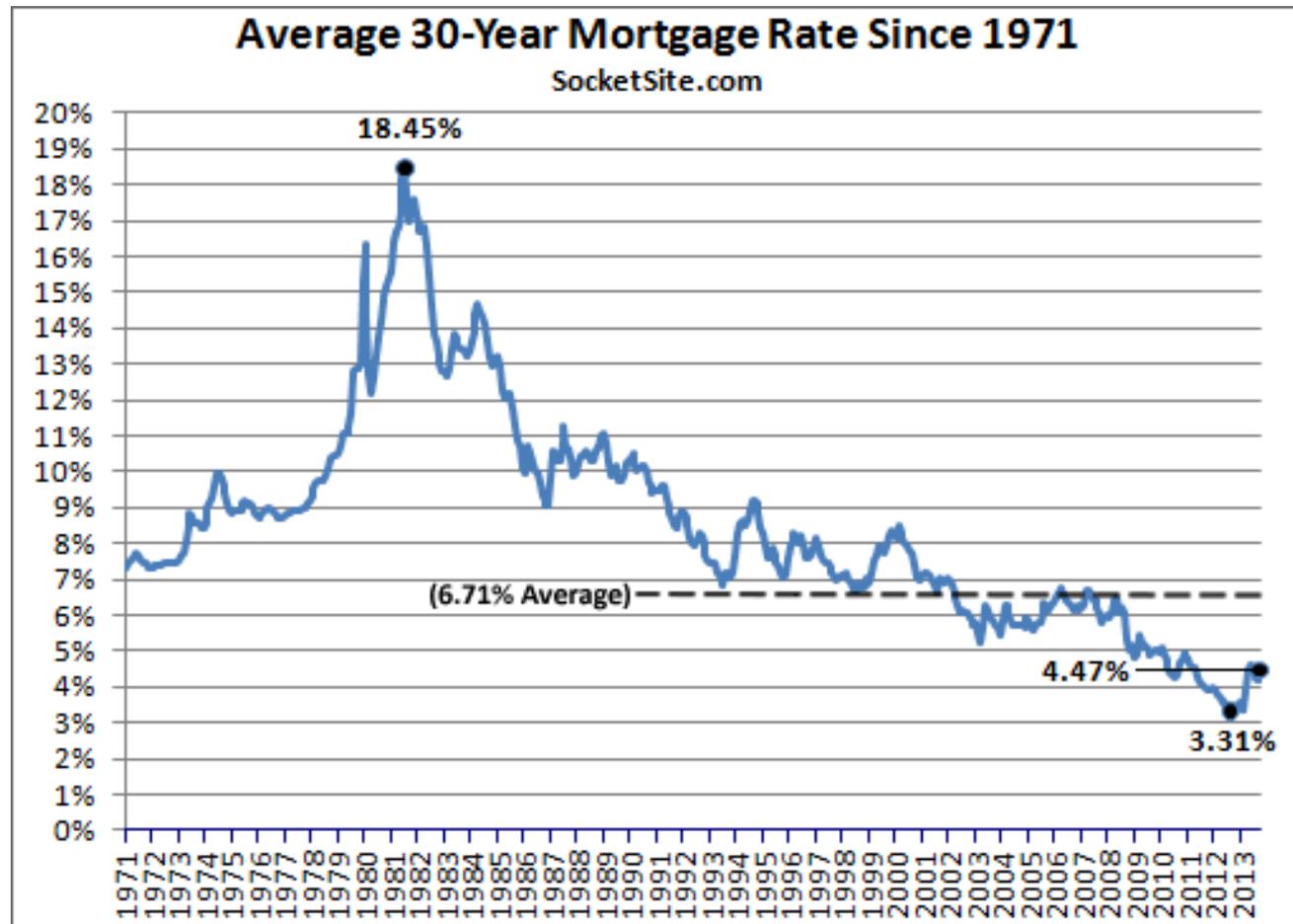
1.2 Annual rate, in millions



Sources: Commerce Dept., Datastream

Housing

- Mortgage rates have increased, but still low compared to historical averages

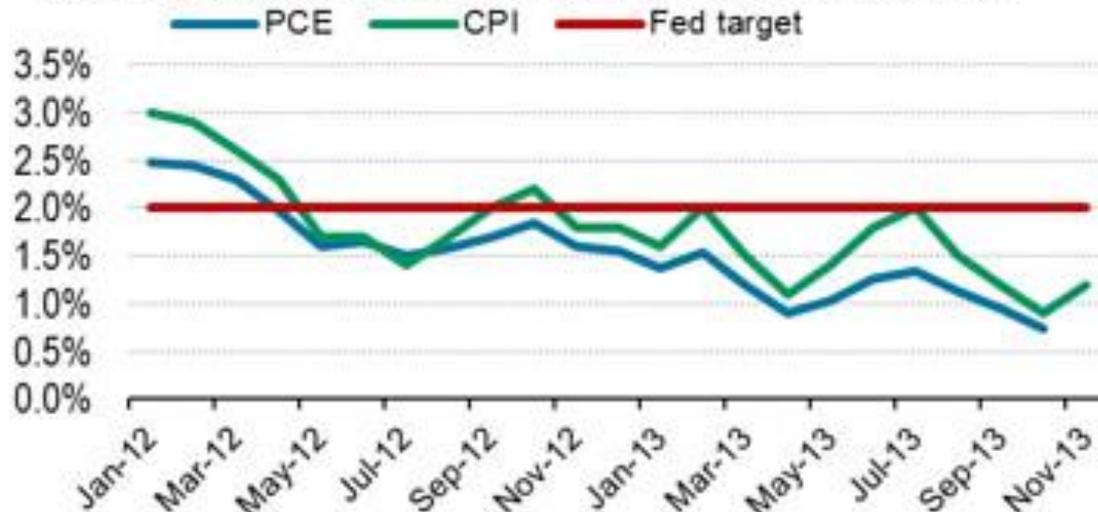


Inflation? What Inflation?

- Inflation remains low
- Allows Fed to maintain accommodative monetary policy

Weak Inflation

The year-over-year change in the consumer price index and personal consumption expenditures price index.



Source: Labor Department, Commerce Department

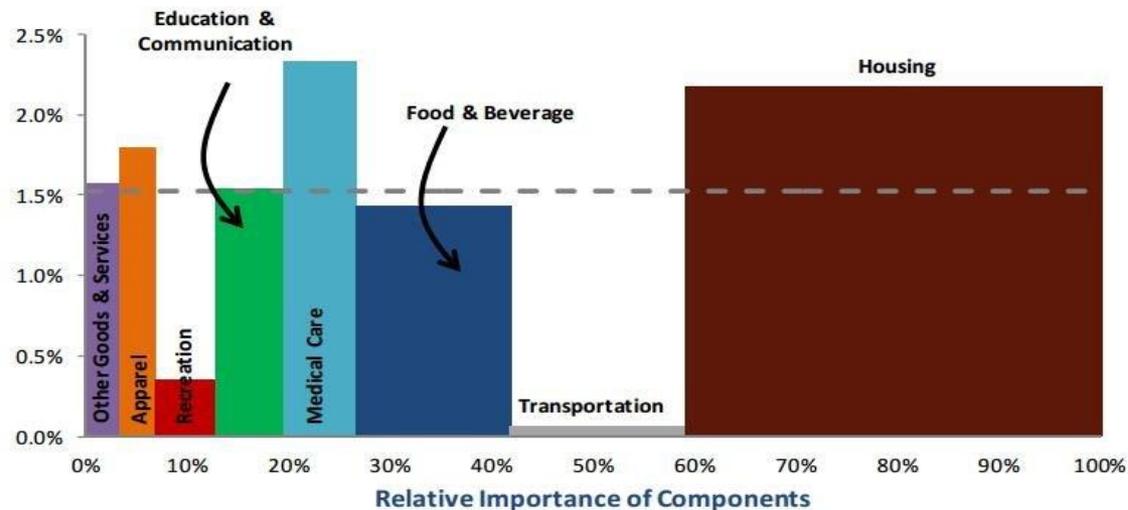
What is “inflation” anyway?

- Large portion tied to housing
- Food and beverage purchased more frequently, but not much more than 10% of total



What moves CPI?

(year-over-year % change)

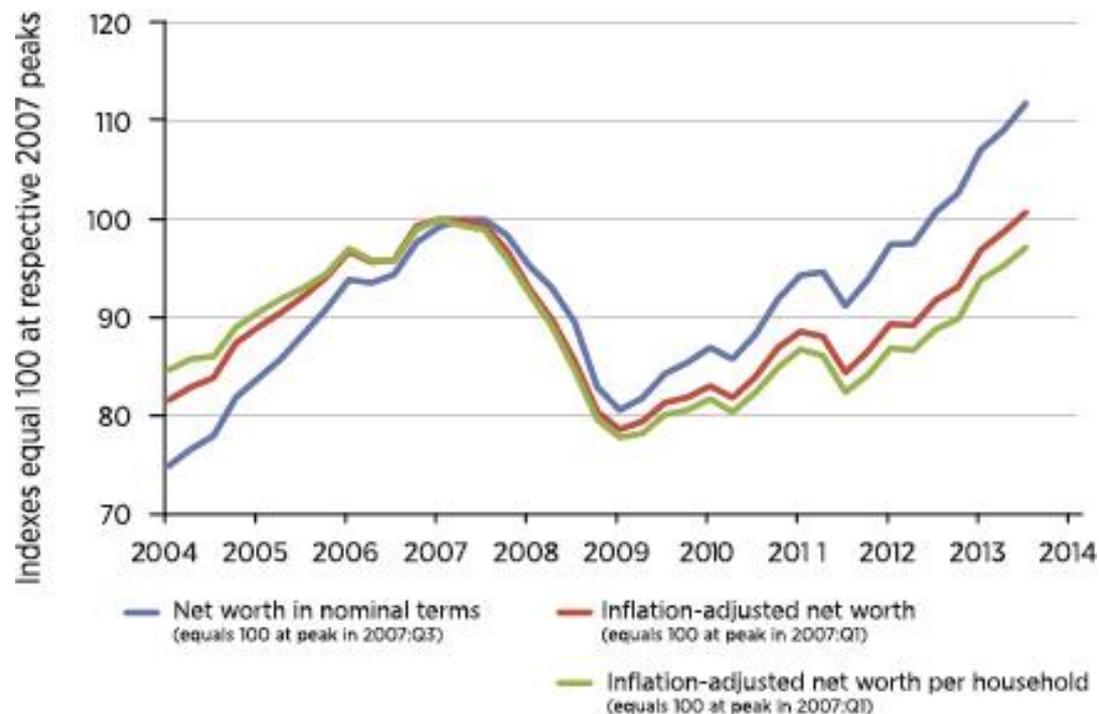


Source: Federal Reserve Bank of Atlanta, Bureau of Labor Statistics

Household Wealth Soars

- Net worth of Americans is higher than ever before
- Still lower than 2007 peak after adjusting for inflation

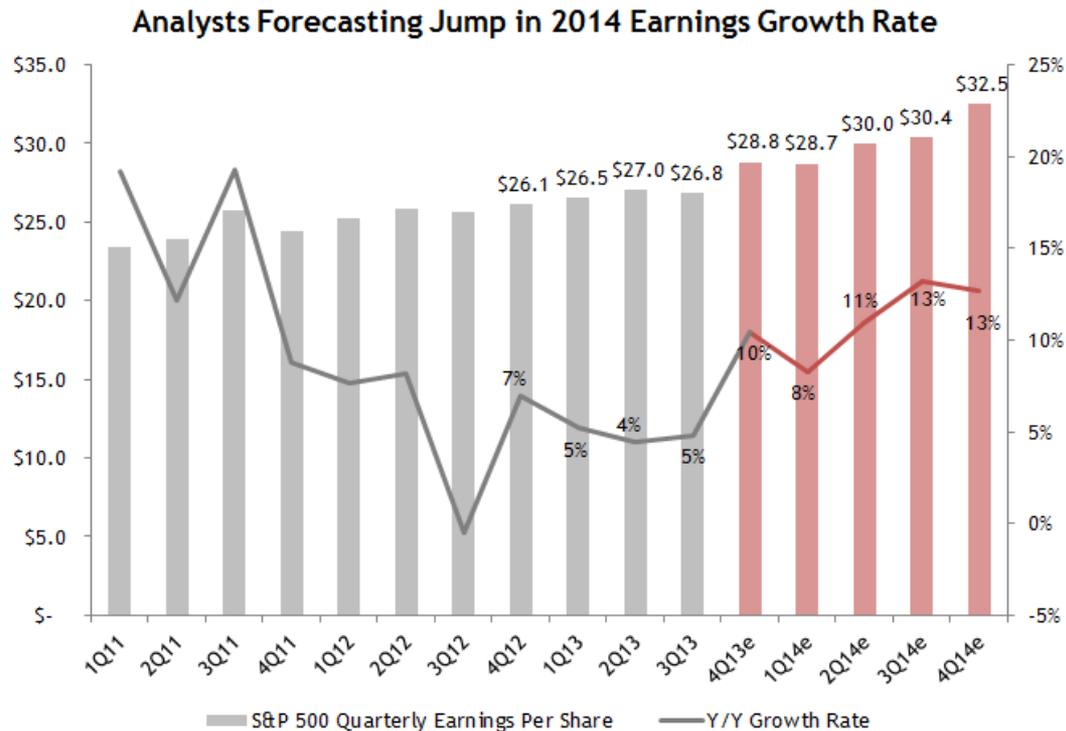
Measures of Household Wealth



SOURCES: Federal Reserve Board, Bureau of Economic Analysis, Census Bureau.

Corporate Earnings

- The S&P 500 rally has outpaced earnings growth
- Currently expected to only slightly accelerate in 2014 and 2015



Source: Thomson Reuters; Avondale Asset Management

Europe

- European crisis concerns silenced
- Stocks rally overseas as confidence is restored

How European stock markets have risen*

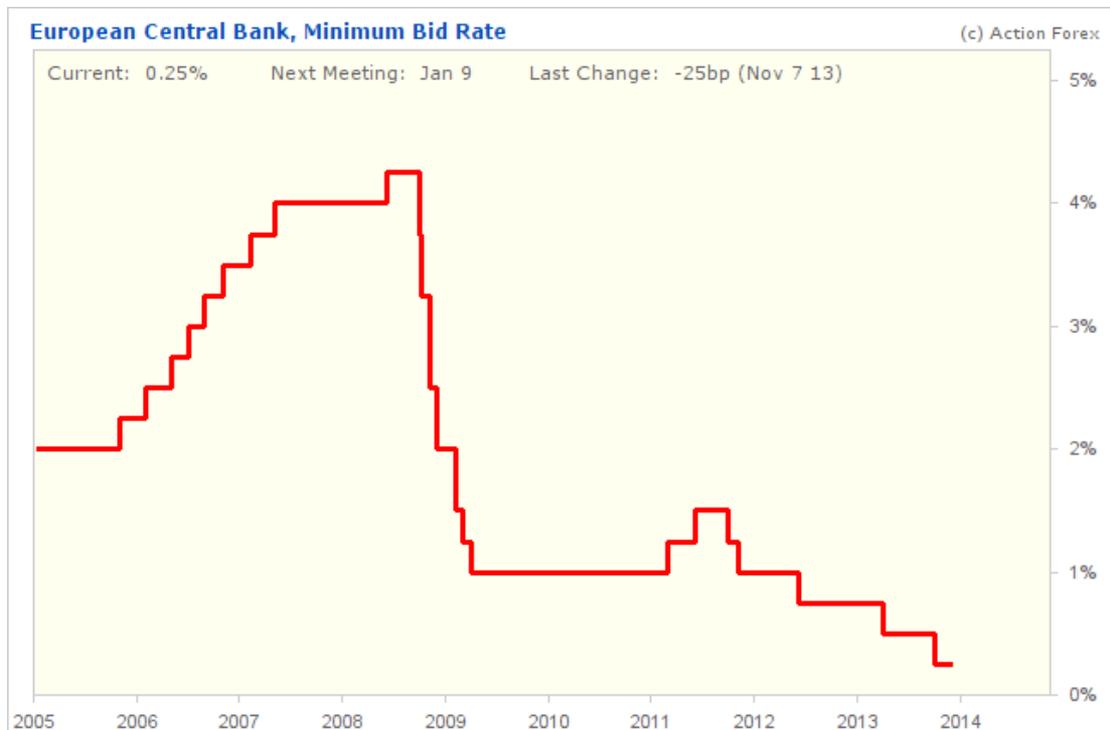
*Change in major indices since December 31, 2012

Ireland	(ISEQ)	+32%
Greece	(ASE:ATH)	+24%
Germany	(DAX)	+23%
Spain	(IBEX 35)	+19%
France	(CAC 40)	+15%
Portugal	(PSI-20)	+15%
Italy	(FTSE MIB)	+14%
UK	(FTSE 100)	+12%

All prices based on euros except UK in sterling

Europe Steals Page From U.S. Fed

- European Central Bank copies U.S. Fed policy by pushing interest rates towards 0%
- Same policy, same results. Low rates, stocks rally

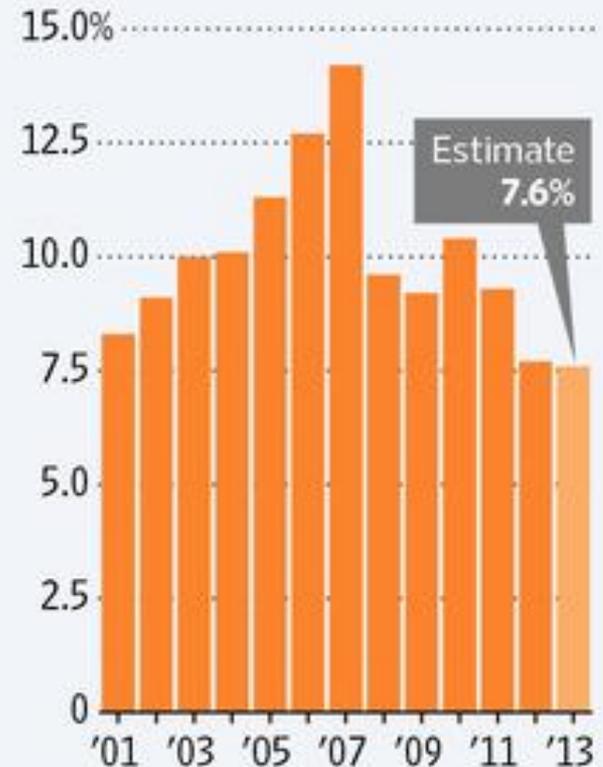


China

- Government stated the nation's economy grew 7.6% in 2013
- Slight slowdown from 7.7% growth in 2012

Tempered Growth

Annual change in China's GDP



Sources: National Bureau of Statistics (historical GDP); National Development and Reform Commission (estimate)

What to Watch - 2014

- 1) Federal Reserve Exit
- 2) Money Flows
- 3) Revenue & Earnings Growth
- 4) Politics
- 5) Geopolitical Tension



Fed Exit

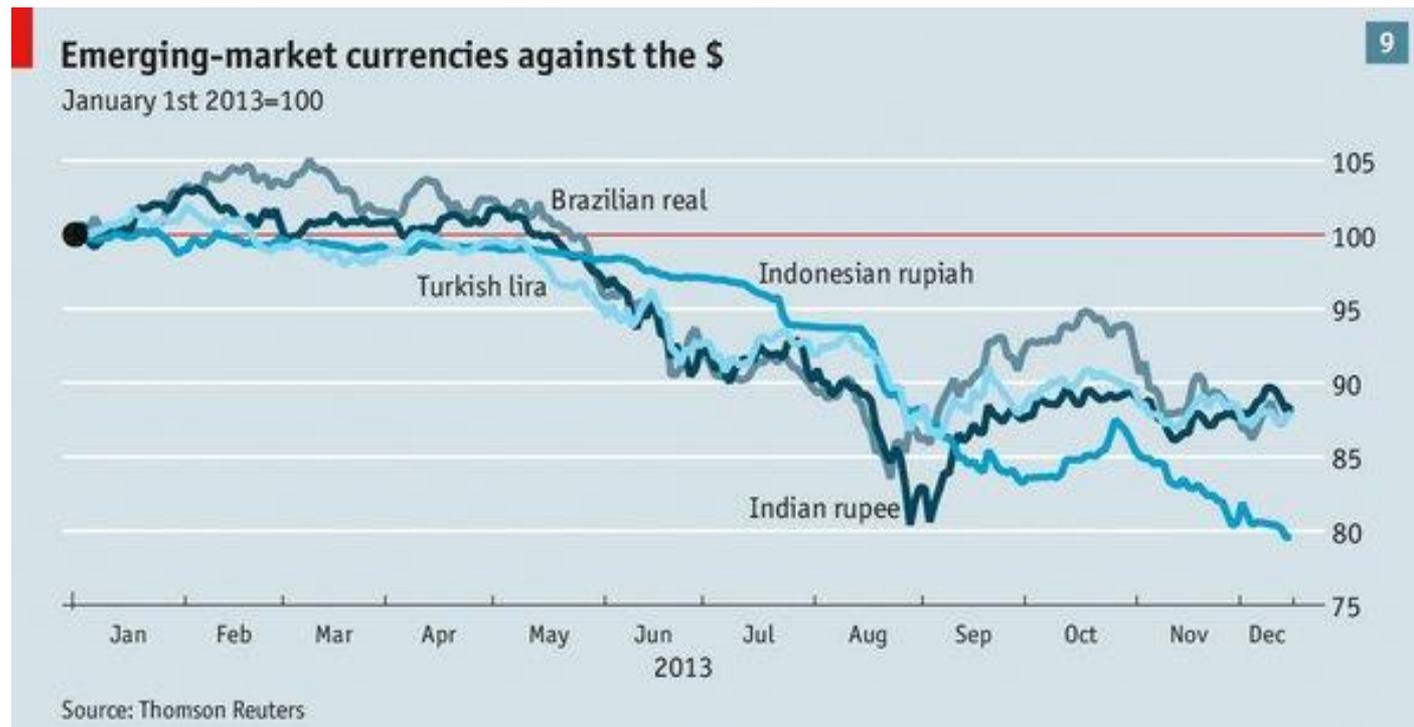
- Interest Rates continue to rise?
- How will that effect economy as borrowing costs increase?



Source: U.S. Treasury

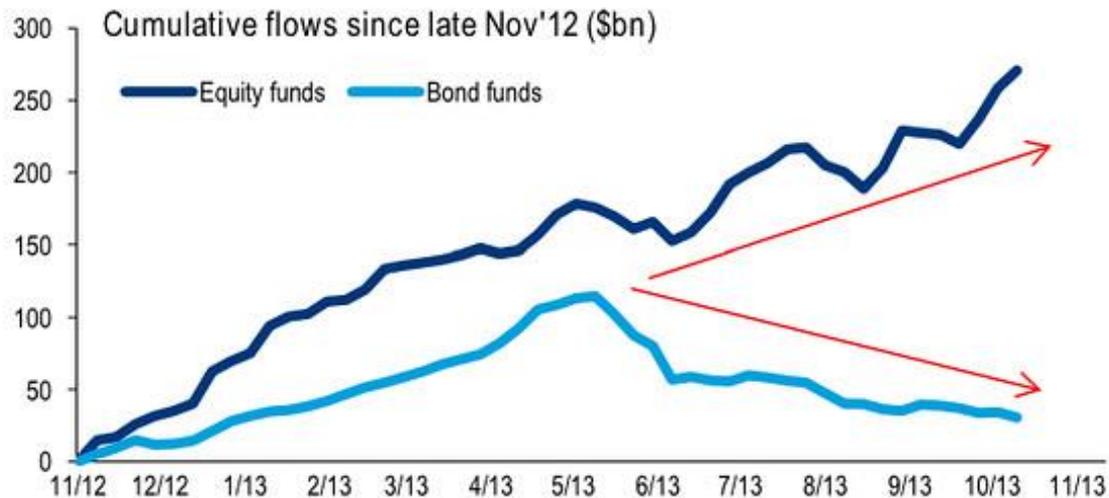
Fed Exit

- What effect will reversing stimulus have on emerging markets?
- “Fragile Five”



Money Flows

- Will the “Great Rotation” accelerate?
- Can this propel valuations even higher?



Source: BofA Merrill Lynch Global Investment Strategy, EPFR Global

Money Flows

- Can this propel valuations even higher?
- Price-to-Earning (P/E) ratio still below average, especially given current level of interest rates

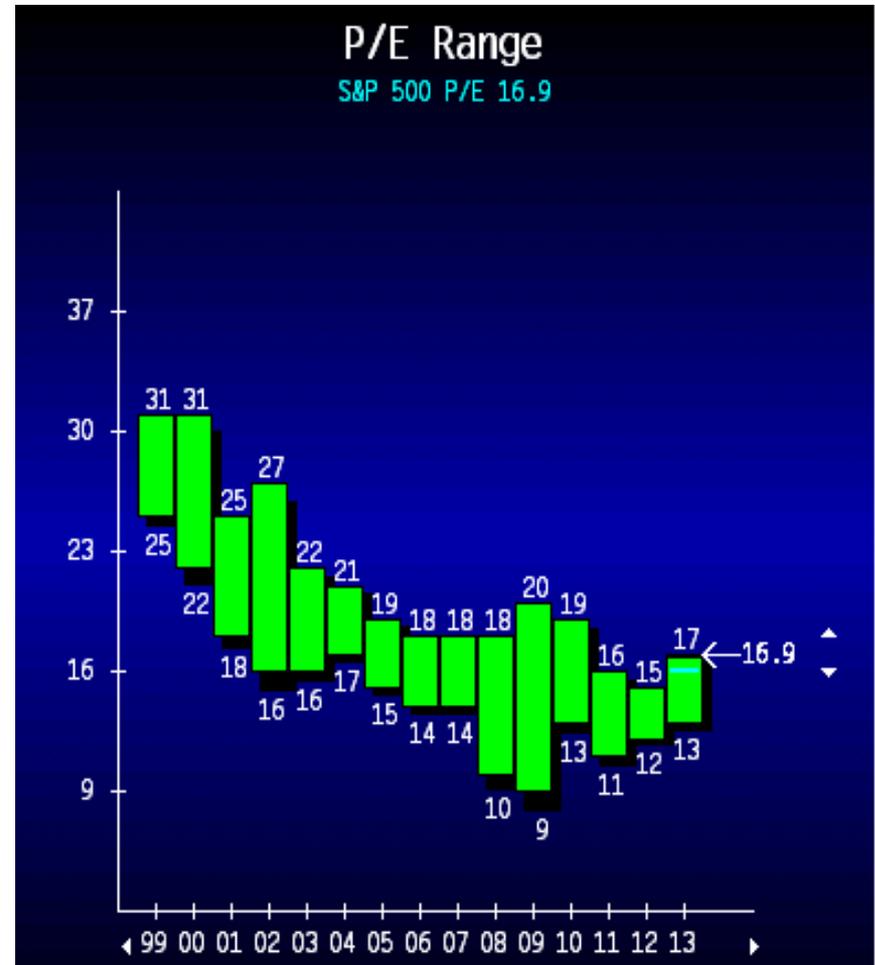
	P/E ratio
Average of all periods since 1950	17.8
Average when rates are above 6%	12.0
Average when rates are below 2.5%	21.8

Source: Thomson Baseline

Revenue & Earnings

- Stocks will eventually need sales and earnings to grow in order to sustain rally
- However, valuations are far from high levels witnessed in 1999/2000

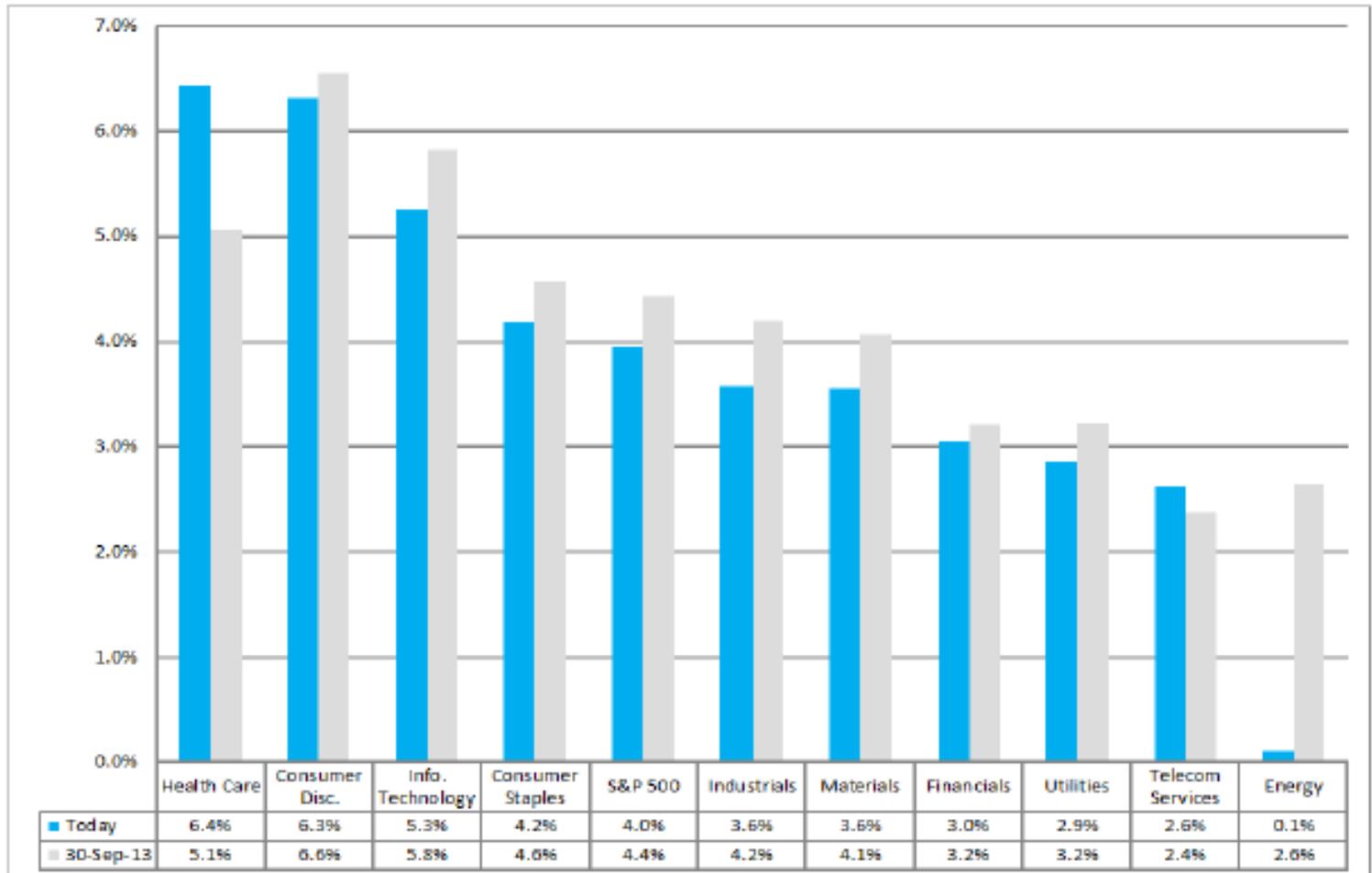
Source: Thomson Baseline



Revenue & Earnings

- Sales growth estimates vary by sector

CY 2014 Revenue Growth



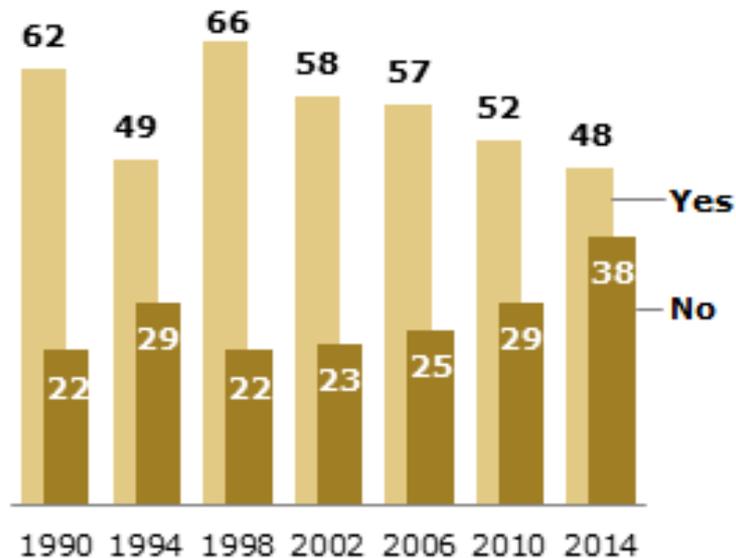
Source: FactSet

Politics

- 2014 is an election year
- New debt ceiling and budget debates coming in first few months of year

Record Anti-Incumbency Mood

Would like to see your representative in Congress re-elected in the next election

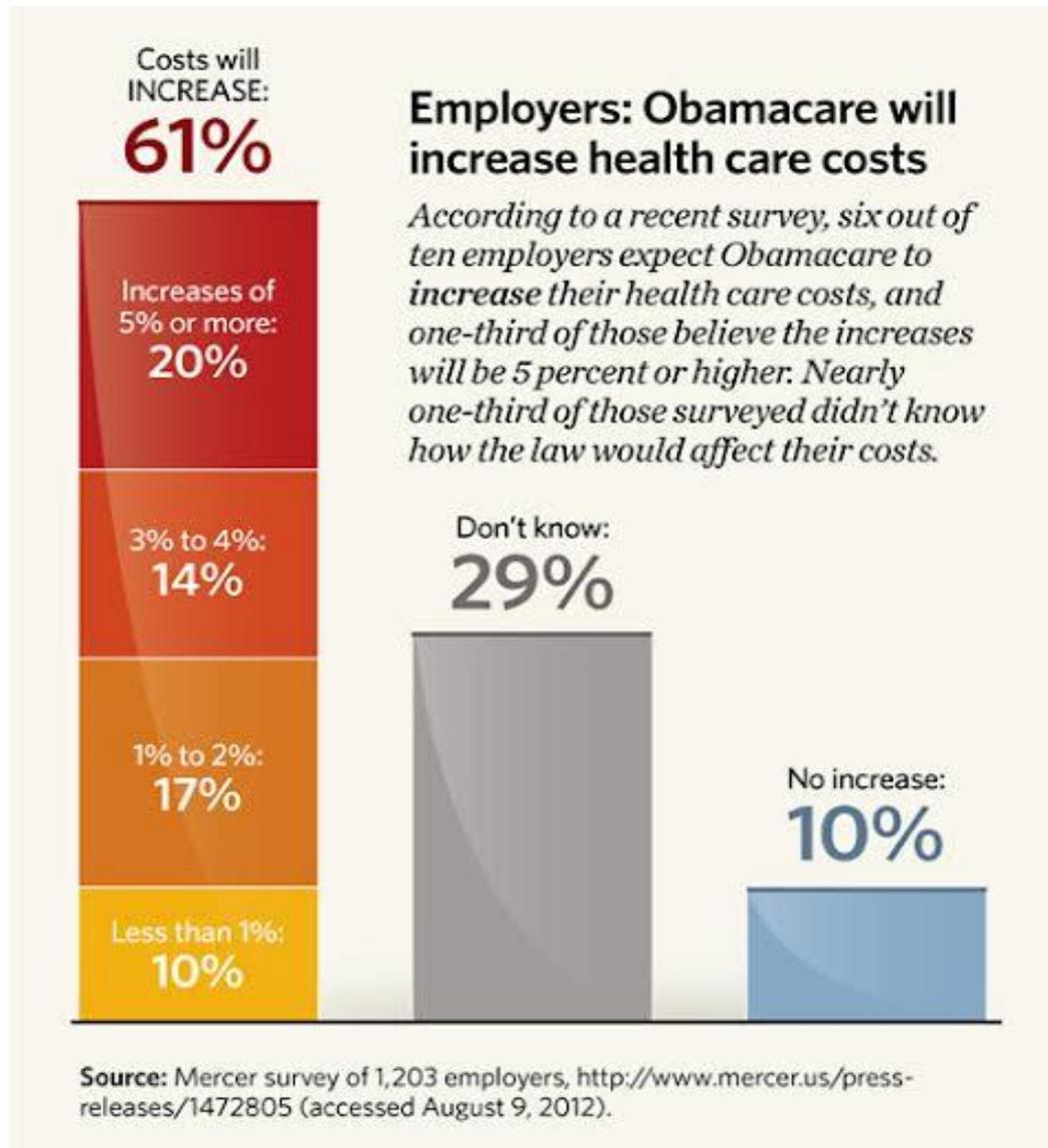


PEW RESEARCH CENTER Oct. 9-13, 2013, Q10.
Based on registered voters. Data from earliest survey in each
midterm election cycle; 1990 data from Gallup.

Obamacare vs. Affordable Care Act

- CNBC survey showed...
 - 46% of respondents oppose Obamacare
 - 37% of same respondents oppose Affordable Care Act
 - 29% of respondents approved of Obamacare
 - 22% of respondents approved of Affordable Care Act
- Problem is... they're the exact same thing!

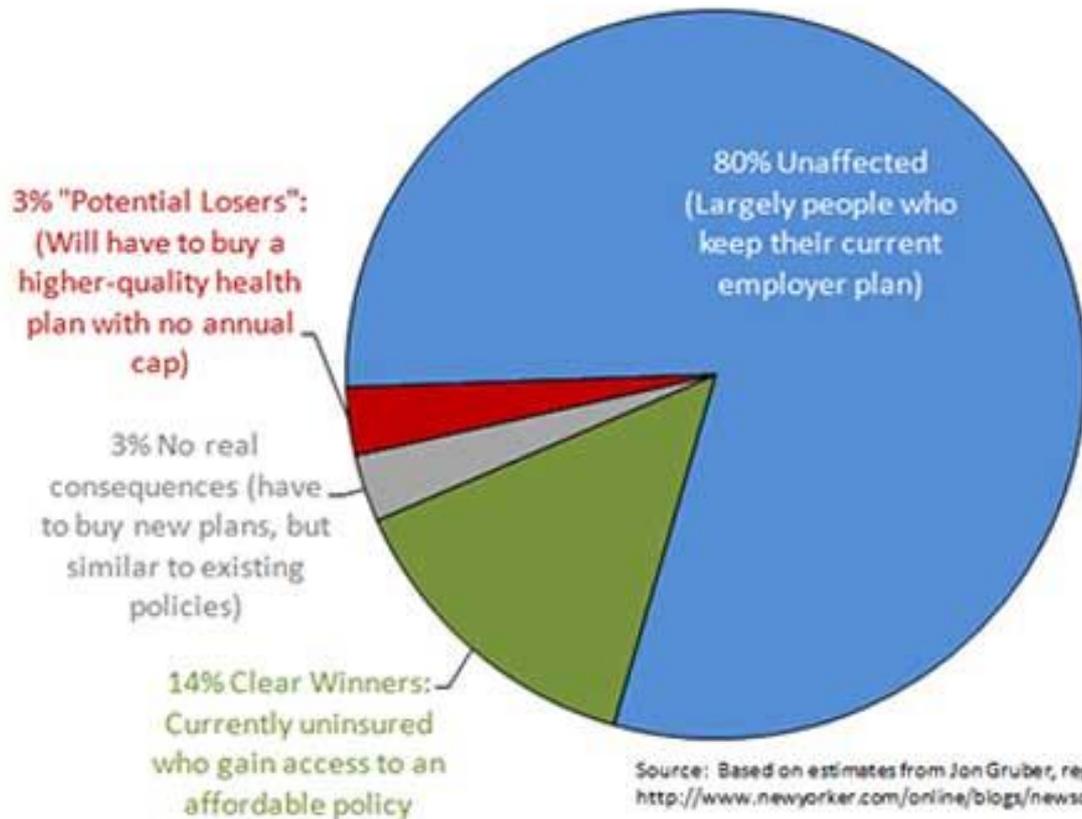
Politics



Politics

- **Obamacare Effects?**

Winners and Losers from Obamacare



Source: Based on estimates from Jon Gruber, reported by Ryan Lizza and Justin Wolfers: <http://www.newyorker.com/online/blogs/newsdesk/2013/10/obamacares-three-per-cent.html>

Geopolitical Tension

- In 2013, we escaped potential conflicts as they arose, but many threats remain that could rattle financial markets



Thank You For Your Continued Support!

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Important Information

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The S&P/Case-Shiller U.S. National Home Price Index measures the change in value of the U.S. residential housing market. This index tracks the growth in value of real estate by following the purchase price and resale value of homes that have undergone a minimum of two arms-length transactions. This index is named for its creators, Karl Case and Robert Shiller.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

Personal Consumption Expenditures (PCE) is a measure of price changes in consumer goods and services, targeted towards goods and services consumed by individuals. PCE is released monthly by the Bureau of Economic Analysis (BEA).

Quantitative Easing (QE) is a government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. QE increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.

The Price-to-Earning (P/E) ratio is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher P/E ratio means investors are paying more for each unit of net income, thus, the stock is more expensive compared to one with a lower P/E ratio.

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