May 2, 2014

Dear Investors,

It was an interesting and volatile week on Wall Street. The Dow Jones Industrial Average reached a new all-time high which, as a headline, sounds terrific. On Wednesday, April 30th, the Industrials closed at 16,580.84, which was four points higher than their 2013 year-end closing price. In other words, it took the Blue Chip Index a third of the year to finish higher than last year. Since the Industrials only represent 30 stocks, most technical analysts pay more attention to the S&P 500 Index, which reached a new all-time high on April 2, 2014. Last week, I suggested that the markets would move higher following a brief sideways movement pattern. The broad market index moved nearer to its April 2nd intraday high and then pulled back to close lower than this year's high water mark, which is a significant technical pattern. It appears that the markets are starting a brief wave down which could see the S&P trade down near 1,850. If the broad market index bounces higher off 1,850, then it is likely that the markets will retest and possibly break above their April highs. If the broad market index closes below 1,850, then it is unlikely that the markets will close higher than their April highs on the next wave up.

After spending one day higher than its 2013 level, the Dow Jones Industrial Average finished the week at 16,512.89 which was 151.43 points, or 0.9%, higher than last week's close and is down 0.4% this year. The S&P 500 Index also gained 0.9% this week as it added 17.74 points to close at 1,881.14, and is up 1.8% this year. The NASDAQ Composite gained 48.34 points, or 1.2%, to finish the week at 4,123.90, and is now down 1.3% for the year. The Russell 2000 was the largest percentage gainer of the week as it added 15.77 points, or 1.4%, this week to close at 1,138.80, and is now down 2.1% in 2014.

Interestingly, the Industrials closed in positive territory for the first time this year on the same day that we learned that the first estimate of the first quarter GDP was significantly lower than expected. Many economists and "experts" were expecting the U.S. economy to grow at a rate of 1.1% to 1.2% during the first quarter. However, the Commerce Department estimated that the GDP growth was only 0.1%. Apparently investors discounted the lower than expected growth rate due to the harsh winter conditions suffered by most of the country and the markets moved higher. However, it is important to understand that the "experts" have already factored in the harsh weather conditions to formulate their estimates so the significantly lower growth rate should not be dismissed. On Friday, the markets closed lower despite a better than expected headline April Jobs Report. The Bureau of Labor Statistics said that the economy added 288,000 non-farm payrolls last month and that the unemployment rate dropped from 6.7% to 6.3%, which again sounds great. The reality is that the labor participation rate dropped to 62%, the lowest level since 1978, as over 800,000 Americans stopped looking for work last month. If you stop looking for work, then you are not included among the unemployed, which is why the unemployment rate dropped by 0.4%. Furthermore, of the 288,000 estimated

new jobs, 234,000 of them were from new businesses that started last month. The estimate of new businesses created by the BLS is a pure guess, or plug number, which has no basis in fact or filings.

This week's confusing and conflicting economic data may have fooled stock investors but the real warning signs are coming from the bond market. If you recall my first letter this year, I suggested that bond prices would rise once again as yields fell due to economic concerns. The 10-year Treasury started the year at over 3.0% and is now under 2.6%. That is a significant, greater than 10%, move lower in bond yields. If the economy was truly improving enough to sustain the current stock market levels, then bond yields would continue to rise as inflation worries increase. However, the decline in bond yields is saying that investors are willing to tie money up for 10 years to make 2.6%, which is effectively losing money after inflation.

This is an extremely difficult time for investors nearing retirement or those who have recently retired and are seeking a yield with minimal risk. As the stock market is near all-time highs, the downside risk is far greater than the upside potential. Although the bond market yields moved lower this week, the bond market yields are at 30-year lows, which mean that there is nowhere to go but up as yields move higher. The downside risk of prices moving lower in the long term is far greater than the upside potential. Therefore, if you are investing in bonds, it should be your intent to hold them to maturity.

With the largest segment of the population retiring without enough income to sustain its previous spending patterns, you cannot simply ignore and invest the way that you have done in the past. Our B.E.L.I.E.V.E. Wealth Management process and our conservative tax-efficient approach to financial planning help our clients understand the risks and possible rewards of investing in various asset classes and help you develop an asset allocation strategy that meets your tolerance for risk and volatility.

It is our mission to educate you about your investment alternatives and to help you work toward your financial goals. If you want to discuss your financial plan, asset allocation, tax strategies or would like a brochure on our B.E.L.I.E.V.E. Wealth Management process, please call my office.

Best Regards,

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