Quarter in Review

As the second half of 2013 gets under way, investors have been tossed out of the frying pan and into the fire.

- As the Fed hinted at pulling back on its unprecedented low-rate policies, many investors were blindsided by the speed and scope of the resulting losses. Some of the biggest declines came in corners of the markets traditionally viewed as safe but offering higher yields, such as municipal bonds and dividend-paying stocks.
- Also hit hard were emerging-market stocks and bonds, where investors were caught flat-footed, not just by worries about the Fed but also by concerns about China's economy and political unrest in Brazil and Turkey. The MSCI EM stock index dropped 9.1%.
- Gold prices fell 23% in the second quarter, the biggest quarterly decline since trading of U.S. gold futures began in 1974.
- U.S. stocks turned out to be an island in the storm, at least on a broad basis. Aside from a handful of nerve-racking days in late June, the Dow Jones Industrial Average withstood the uncertainty over Fed policy to rise 2.3% in the quarter. That left the blue-chip index just 3.2% below its record high set May 28 and up 13.8% in 2013. That is the best first-half performance for any year since the technology-stock-driven bull market of 1999.

Summer is the stuff of dreams. When adults sit at their desks, and children sit in school, they dream of summer. The day seems to last forever, and the fun never stops. It is a time of romance, excitement and an enhanced enjoyment of life. Somehow summer never seems to last long enough.

BENCHMARK CENTRAL 2012

Barclay's Aggregate Bond index	-2.45%
MSCI EAFE (International Stock index)	2.18%
Russell 1000 Value (US Large Cap Value index)	14.56%
Russell 2000 (US Small Cap index)	15.09%
S&P 500 (US Large Cap index)	12.63%
Wilshire 5000 (US Total Market index)	13.32%

To Our Valued Clients...

It's times like these when diversification appears to "hurt" a portfolio. U.S. stocks (as measured by the Wilshire 5000 Index) are having a fantastic run as of late, up 13.32% through the first 6 months of 2013. Meanwhile, other main sources of diversification are struggling year to date.

International stocks, both developed and emerging markets, started the year up before taking a dramatic turn for the worse in the second quarter. The MSCI EAFE, the predominant index for developed international stocks, was down roughly 3% for the quarter while the MSCI Emerging Markets index was down approximately 7.5% during the same period.

The average American investor has what is called "a home bias" or the tendency for investors to invest in a large amount of domestic equities, despite the purported benefits of diversifying into foreign equities. And it is during times like 2013 when this bias helps, instead of hinders a portfolio. But let us not forget that the MSCI EAFE outperformed the Wilshire 5000 in 7 of the last 10 calendar years,

Meanwhile, the greatest diversifier in regards to stocks, fixed income investments or bonds, are down –2.33% and –2.45% for the quarter and the year, respectively. Most people do not realize that bonds, as the "conservative" portion of the portfolio, can also have negative returns.

During periods when bonds are going down and international equity underperforms domestic equities, a broadly diversified portfolio will "look" to be underperforming. It is extremely important during times like these to make sure the returns are evaluated in the proper context, on an apples-to-apples basis, and not simply compared against a domestic index invested in 100% large cap stocks.

Important Client Webinar

Starting date: Thursday, July 25, 2013 Starting time: 2:00 pm, Eastern Daylight Time (New York, GMT-04:00)

Meeting number: 739 046 721

Meeting password: AFAJuly

Call-in toll-free number (US/Canada): 1-877-668-4493

Access code: 739 046 721

If you cannot join the call live, we will post a recorded version to our website within a week or so after the call. You can access these calls by following these instructions:

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