Fall 2013 Commentary

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Investing For The Long Haul

September 2013 marks the five year anniversary of our economy's near collapse in September 2008, where it was common to read such headlines as "FDIC Needs Billions" or "Another Bank Fails." It is by no surprise today that the extraordinary measures to save our economy five years ago are still being debated. Yet, it is in periods of uncertainty that investing in the markets for the long haul can be rewarding.

To highlight this point we should look back to March 9, 2009 when the S&P 500 closed at 677, and it was at 677 that many questioned if the markets would ever recover. However, as of September 30, 2013 the S&P closed at 1,682, supporting an incredible 148% return in the S&P index! The lesson learned is that it pays to stay invested. To quote Warren Buffet, "I never attempt to make money on the stock market. I buy on the assumption that they could close the market the next day and not reopen it for five years."

Third Quarter

During the third quarter of 2013 the S&P 500 Index grew 5.24%, finishing the quarter 2% below its all-time high reached on September 18, 2013. As of September 30, 2013 the S&P 500 total return for 2013 was 19.8%. Stronger auto and home sales indicated consumers' willingness to spend on the big-ticket items, which signals a more confident consumer. Conversely, the third quarter was arguably one of the toughest for domestic fixed income investors in years, which came on the heels of Chairman Bernanke's suggestion of "tapering" Quantitative Easing (QE). Yet, the Federal

Reserve again surprised the markets this September by announcing they would continue their $85 billion monthly bond buying program. Continued QE provided relief to fixed income investors as rates pulled back. The September dip in rates gave the Barclays Capital U.S. Aggregate Bond Index an opportunity to finish in the black up .57% for quarter. The 10-Year U.S. Treasury yield hit the 3% mark on September 5, but ended the quarter at 2.63%. On a historic note some are beginning to argue that the 30 year bond bull market may have ended early this summer ahead of the third quarter.

The global economy showed signs of encouragement. The Eurozone broke out of recession, and effectively ended its longest postwar contraction. This boosted European markets with a strong 13.66% (MSCI Index Europe) return this quarter. The emerging market economies seem to be gaining traction as well, gaining 5.9% (MSCI Index Emerging Markets). The emerging markets had been hit negatively early summer 2013 when the Fed suggested it might start to taper its monthly bond purchases later this year. This caused capital flow to more "secure" markets in search of higher yields. Despite the ebb and flow of investment to these emerging markets over recent years, it is worth noting today stocks across the developing world are trading at a discount relative to their history and neighboring developed peers. Put simply, this makes current prices intriguing for long-term investors.

U.S. Bond Market		
Index	**Third Quarter 2013**	**Year-to-Date**
Barclays Capital U.S. Aggregate Bond Index	0.57%	-1.89%
Credit Suisse High Yield Index	2.39	3.94
Barclays Capital Municipal Bond Index	-0.19	-2.87
Barclays Capital Global Aggregate Ex-U.S. Dollar Government Bond Index	4.38	-2.38
J.P. Morgan Emerging Markets Index Plus	0.51	-8.89

U.S. Stocks		
Index	**Third Quarter 2013**	**Year-to-Date**
DJIA	2.12%	17.64%
S&P 500	5.24	19.79
Nasdaq Composite	10.82	24.9
S&P MidCap 400	7.54	23.23
Russell 2000	10.21	27.69

International Averages		
MSCI Index	**Third Quarter 2013**	**Year-to-Date**
EAFE (Europe, Australasia, Far East)	11.61%	16.59%
All Country World ex-U.S.	10.17	10.47
Europe	13.66	16.71
Japan	6.71	24.47
All Country Asia Ex-Japan	5.86	-0.08
EM (Emerging Markets)	5.9	-4.05

Outlook

Today our financial markets are in much better shape than they were five years ago. We will never be in a perfect world as our leaders in Washington have shown, but we have effectively exited the Great Recession. This was a period defined by unwinding tremendous household debt and an overleveraged financial system. Household net worth and debt service ratios are now again near historic norms, while unemployment, though at 7.3%, is making its way down to the 50-year average of 6.1%. With a reversion to the mean in unemployment rates, household net worth and manufacturing growth, we will start to see a balanced economy. The current economic cycle's real run rate between 2% and 2.25% gives an opportunity for slow and steady organic growth. Yes, 2% GDP growth is slow in comparison to the last two decades, but I argue that this economic environment is one where too much capacity in one sector or "bubbles" may prove difficult to develop. Specifically, from an optimistic viewpoint, this economic landscape is in sharp contrast to previous cycles that fostered the housing and tech bubbles over the last decade.

Having said this, it is important to know your investment horizon, and with this comes a proper allocation of investments to manage risk and capture growth. History has shown time and time again for those with a long investment horizon that it pays to stay invested. Yet, for those with shorter investment horizons, we are on the alert for potential market dangers via: faltering U.S. private sector profits, accelerating private sector credit, sector bubbles, and rising interest rates.

At Geier Asset Management we will continue to work with you to ensure your financial plan stays on track with your goals, while working to identify opportunities and manage risk along the way.

Model Changes

We have been pleased with the performance of our Diversified Models this quarter across the board. Some changes have been made to our Diversified Aggressive Growth Model in that we have decreased our international large cap holdings in this strategy. Moving forward this model will be allocated as follows: 70% - 75% U.S. Small & Mid-cap, 15% - 20% International Small & Mid-cap, and 10% emerging markets. For more exposure to the international markets we have the Diversified International Model.

As always, we greatly appreciate your continued confidence in our firm.