SELECTOR® Money Management
2013 Third Quarter Review

Domestic Equity Markets Enjoyed Another Profitable Quarter

July was one of the most productive months in years, with the S&P 500 climbing thirteen of the first fifteen trading days. That rally carried through August 2nd, with a gain of +6.45%. In August equity markets finally exhaled with a mild 5% correction before heading north again in September. The September rally was significant in that it carried many domestic equity indexes to new all-time highs. Breakouts to new highs is always a positive development, and confirmation that our very mature Bull Market still has room to grow. The September rally was fast and furious, with the S&P 500 rising on eleven of twelve days for a +5.94% gain. Then it was time for the traditional September slide. The end of September is prone to weakness from end of the quarter institutional portfolio restructuring. But when the final numbers for the quarter were posted, the S&P 500 posted a +4.67% gain. Small cap equities were doubly productive in the third quarter, with the Russell 2000 Small Cap Index gaining +11.61%.

After a Horrendous Second Quarter, Bond Markets Started Basing in the Third Quarter

Bond markets bounced in July with the Barclays Aggregate Bond Index setting up a 2% trading range. The June lows were successfully tested in the first week of September and quickly followed by a nice rally back to the top of the trading range. Bond market corrections are typically very sharp and very short-lived and this is proving to be the case in 2013. Bond investors are notoriously pessimistic and it shows in their trading action. The Federal Reserve's surprise no-action decision in September forced a fresh reappraisal of the role of bonds in a diversified portfolio. Their sharp second quarter declines, plus the steady interest rate environment creates some intriguing short to intermediate-term investment opportunities. The total return for the third quarter for the Barclays Capital US Aggregate Bond Index was +0.46%, for the Barclays Capital US Corporate High Yield Bond Index was +2.37%, for the Barclays Capital US Corporate Investment Grade Bond Index +0.73%, and for the Barclays Capital US Treasury 20+ Year Index -3.22%.

International Equities Joined Party in the Third Quarter

Developed international equities danced step for step with domestic equities in July, corrected briefly in August, then surged to new all time highs in September. This expansion of breadth foretells of even more advances in the fourth quarter. The MSCI EAFE gained an impressive +12.06% in the third quarter. The emerging markets needed to set up a base before they could advance, after their extremely sharp drop in May and June. That base was established and successfully tested in July and August. The MSCI Emerging Markets Index broke higher in September with a sharp 16% rally, but is still down -6.99% year-to-date. The important aspect is that now virtually all domestic and international equity markets are valid candidates for new capital. With short term interest rates resting at zero, equities present an attractive alternative. Now that bond markets are basing, they, too, offer some interesting opportunities for more conservative investors. The fourth quarter has historically provided a target-rich environment for investors, and this year certainly appears to have the potential to continue this tradition.

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