SELECTOR® Money Management
2013 Year End Review

By Every Measure, Domestic Equity Markets Enjoyed A Very Good Year

This was a slowly developing and delightful surprise as the year progressed, because nobody, and I mean nobody expected 2013 to be half as good as it turned out. There were just so many 'reasons' why it couldn't have or shouldn't have happened. My goodness, the Federal Government had to shut down for sixteen days! Fortunately for equity investors, the politics and the pessimism did not rule the day, nor the year. In 2013, U.S. equity markets were the most productive, profitable, and consistent financial markets in the world. Without even a moderate correction, domestic equity indexes continued to garner attention and attract capital both domestically and abroad. Quite simply, they were the best game in town. When that happens, money flows, and investors who are unburdened with the politics and the pessimism stand to profit. Looking ahead, most of the financial landscape that we faced a year ago, economically and politically, is still with us. The U.S. economy continues to slowly improve. Unemployment is slowly declining. Inflation is nowhere to be seen. Interest rates remain near record lows. The same politics and politicians are in place with interim elections coming around again in 2014. One has to ask, what has to change to negatively impact the current trends, which are so positive?

Bond Markets Actually Had A Mini-Bear Market in 2013

After rising to new highs in May, bond market indexes plummeted for two continuous months. This dive affected virtually all bond market sectors, both domestic and international, erasing the year's earlier gains. At that juncture the various bond sectors went their separate ways, with the high yield and convertible sectors rebounding quickly as equity markets continued to climb. These two bond sectors were the only ones to experience positive returns in 2013. Investment grade corporate bonds started to recover within a couple of months and made modest price recoveries. Meanwhile, high quality, long-term bonds suffered the worst declines, especially US Government bonds, TIPs, and municipal bonds. This negative bond market action muted investment returns for diversified portfolios.

International Equities Finally Joined the Party In The Fourth Quarter

Developed European equity markets had been contained in a trading range for much of the first nine months, but finally broke higher and finished stronger. Emerging markets equities were deep in negative territory until September, when they managed to recapture a trading range. Still, they finished lower on the year. Latin equities markets had a particularly difficult 2013, closing markedly lower. It was clearly a banner year for US equities, and a challenging year for international markets in general.

We Continue To See Positive Trends In Eight Of The Ten S&P Equity Sectors

The strongest performance of 2013 and the longest positive trend is seen in the healthcare equity sector. Other sectors with persistently positive trends are the industrial, financial, technology, and consumer discretionary sectors. Energy, basic materials, and consumer staples sectors also demonstrated positive price action during the second half of the year. The two weakest equity sectors, both with strong financial links to the bond markets, were utilities and real estate. From a capitalization-weighting perspective, Large Cap, Mid Cap, and Small Cap domestic equities were all putting up strong numbers at year's end. With such broad participation, 'steady as she goes' sounds like a solid strategy.

Edward D. Foy
Manager, SELECTOR® Money Management

Foy Financial Services, Inc.
12501 Holdrege Street
Lincoln, Nebraska 68527

SELECTOR
Real-Time Money Management