RIVERPLACE
· CAPITAL ·
1301 Riverplace Boulevard, Suite 2130
Jacksonville, Florida 32207

Perspectives

January 2014

Number 62

2013 SUMMARY

An ice-cream sundae with a cherry on top, what a year; and fantastic returns were had by all. We predicted another better than average year last January. We certainly got one.

All-equity accounts had no trouble earning a 30% return and Riverplace Capital's did even better. Balanced accounts also did well. However, bond allocations did hold returns back.

Strong market returns came from a broad swath of the market. The strongest sectors were Healthcare, Consumer Discretionary, Industrials, Financials, Technology, and Consumer Staples in this order. One can immediately see that both defensive and cyclical sectors participated. Returns were not evenly earned for the individual sectors, but moved around during the course of the year. It was important to have a reasonably broad portfolio in order to pick up the gains.

Toward the end of the year other markets began to play catch-up, especially European ones. Emerging market performance also began to show signs of life, although at a more subdued pace. The U.S. market was the star. As good as this past year was for U.S. stocks, it was a tough one for domestic bonds.

Bonds had flat to negative returns. This is no surprise to us as we have warned that bonds have now entered into an extended bear market. Bond returns will be under pressure for years. (Remember, credit cycles often extend for a decade or more.) Interest rates will slowly climb. At first they will merely get back to normal ranges, but then later will spike to much higher levels if inflation returns.

So where are the opportunities now? After over 30% returns, is there anything left in U.S. stocks? See the Forecast section for our predictions. ◆

> "It's not how much money you make, but how much money you keep, how hard it works for you, and how many generations you keep it for."
>
> — *Robert Kiyosaki*

TALK WITH US

Have you missed it? Did the financial crisis scare you away from investing? If so, what can you do now? One thing you cannot do is catch-up. The stock market is up 2.7 times from the bottom in 2009. The best a new investor can hope to do now is to realize reasonable returns in the future.

The best thing a new or returning investor can do is go back to fundamentals. Make sure before you start to invest that you have cash reserves, or savings sufficient to give you enough comfort that you do not need to disturb long-term investments if they go through a rough patch. Staying power is often the key to realizing the benefits for which you originally invested. There is no strategy or sector that does not go through rough periods. Don't believe anyone that tells you otherwise.

Divide your investable funds into categories. To begin with decide how much volatility you can stand and, therefore, how conservative or aggressive you should be in your portfolio. The conservative portion might be invested in income securities of high quality. The aggressive portion can be invested in stocks.

If you have the interest, capability, and temperament, you may do the investing yourself. Most individuals do not, but may not know it. Today investors have many different investment vehicles at their disposal. There are individual securities, mutual funds, and exchange traded funds just to name the basic ones.

Knowledge and temperament is something you have to really be honest with yourself about. If you are a returning investor, perhaps you have already seen that you do not have the temperament that is required for a consistent strategy. If you are new, you may need to be tested before you can answer this question. However, if you have doubts, find an advisor you trust to work with you. Consistency and staying power are important keys to success.

Investing seems simple from the outside. Intelligent or well educated individuals often think that surely they can grasp the fundamentals. Some can, but often these investors simply do not know what they do not know. This writer has been professionally investing for almost 35 years and is still learning. In some cases it really is rocket science. Simplicity can work well for the truly durable, but these investors are more rare than not.

For most, working with a trusted advisor is a sound way to go. Riverplace Capital has been working for its clients for over 15 years. In addition we have decades of experience. If you would like to see if this approach can work for you, **Talk with Us**. ◆

·RIVERPLACE CAPITAL·

Perspectives

January 2014 Number 62

FORECAST

ECONOMY

Last year, we predicted that GDP growth would accelerate into the second half. That has now happened. Faster growth should now be sustained. We expect GDP growth in 2014 to be between 3% and 4%. That is up from 2% to 2.5 % for 2013. Faster growth in the U.S. will help Europe and many emerging markets to also recover and accelerate modestly.

Confidence in the U.S. recovery increased during 2013. Most business leaders now expect economic momentum to broaden to more sectors in the U.S. This confidence ought to lead to greater capital spending; a weak link so far in this recovery. With increased capital spending will come more employment; surely reinforcing greater growth.

Strong economic sectors like Manufacturing, Energy Production, and Housing should stay strong. In addition, expect more performance from Financials, Technology, and Healthcare. This is, in short, a prescription for our asset allocation outline for 2014.

EQUITIES

We just listed what we expect the strong sectors to be in 2014. We will overweight these sectors. Not immediately, but later in the year we expect to add the Materials sector to this list. It will take some time yet to absorb the over-production of many materials over the past few years. However, it will happen.

International stocks are drawing more interest. European equities seem especially cheap. If Europe continues to recover from its debt crisis, then their stock markets are full of opportunity. Emerging markets seem to be a little behind Europe in cyclical recovery, but may also play catch-up to the recent U.S. market out-performance.

In building portfolios, we include many companies that benefit from the trends cited above. We do not need to own European companies to participate in the positive trends we see there. Nor do we need to own emerging market companies to benefit from growth there. Many U.S. based firms do a high proportion of their business in Europe and elsewhere. We continue to look for intelligent, less risky ways to catch positive trends.

Our current portfolio models already reflect the weightings and emphasis cited. However, as we find better opportunities, we will include these and make periodic adjustments to client portfolios. Adjustments are necessary to stay in step with opportunity.

FIXED INCOME

We predict a long bear market for fixed income securities. A thirty year bull market and recent bond mania will not be resolved quickly. Certainly, bond prices may rally from time to time, but the trend could be a ten year or more decline. The sooner bond investors realize they are on the wrong side of a major trend, the sooner they can get back in step with opportunity.

For fiduciary reasons, some accounts need to hold bonds. They do mitigate periods of volatility. Just do not expect bond holdings to add much to returns. ◆

INVESTMENT STRATEGY

EQUITIES

We will be less tolerant of lagging performance as we see many opportunities. We want to gradually enhance our exposure to the European recovery and emerging markets. One thing you will not see us do is shy away from the stock market, just because 2013 was such a good year. “Good years follow great years” is an old investing adage. Regardless, it is fundamentals that guide us and they are getting stronger.

We have a position in Materials, but want to add to this exposure later in the year. We may use gold for this addition, something we have not done before. We will most likely reduce the number of positions in Consumer Discretionary, Staples, and Healthcare. We will let market action guide our timing and level of commitment.

FIXED INCOME

For those accounts that need them, we are finding a few bonds that are suitable. We don’t expect much return from these, but returns are now substantially better than cash. Of course, we are keeping the maturities in the holdings relatively short.

As interest rates rise, we should be able to find more bonds to buy. For those clients that need to have bonds in their accounts, thank you for being patient as we avoided making bad investments at historically low yields.

ASSET ALLOCATION MODELS

Last year we spread our equity participation between large, mid, and small-cap domestic holdings. Later, we began to add international and emerging market ones too. We will soon add to these. We will reduce our small-cap weighting as valuations are getting riskier here. ◆

MAJOR INDICIES

as of 12/31/2013

Large Cap Stocks (S&P 500)	29.6%
Dow Jones Industrial Average	26.5%
Mid Cap Stocks (S&P 400)	31.6%
NASDAQ Composite	38.3%
Small Cap Stocks (Russell 2000)	37.0%
MSCI EAFE	19.43%
Barclay Aggregated Credit Index	-2.12%
Inflation	1.2%

Equity indices are twelve-month returns excluding dividends

NOTICE

Check out our new web site. It is still a work in progress, but offers a lot more information for you. A weekly blog with recent updates is now available. We look forward to your feedback. www.riverplacecapital.com

Riverplace Capital offers our clients free financial planning. We believe strongly in the value of planning as it helps document goals and objectives, and provides a benchmark to measure progress. Planning helps us provide better, more targeted financial service to you. If you would like a financial plan, contact your portfolio manager at (800) 391-1212.

CONTACT US

1301 Riverplace Boulevard
Suite 2130
Jacksonville, Florida
32207-9030

(904) 346-3460
(904) 346-3434 Fax

info@riverplacecapital.com