Riverplace Capital Management, Inc. RCM Riverplace Capital Management, Inc.

PERSPECTIVES

OCTOBER 2013 NUMBER 61

Fourth Quarter

Another good quarter; in spite of more worries than can be counted. In fact, let's make a list of some of these:

- The economy is fragile and likely to slip back into recession any time.
- The economy has never really recovered; perceived improvement is really just an easy money bubble.
- Good earnings being reported are also a result of the easy money bubble.
- The world banking system is broke and will collapse sooner or later
- Troubles in the mid-east will result in another energy crisis.
- Europe's EURO experiment has failed and will bring down the world financial system.
- Congress will destroy our economy.
- The Democratic Party in the U.S. will destroy our economy.
- The Republican Party in the U.S. will destroy our economy
- Business leaders are all crooks and can't be trusted.
- China's economy will eventually overwhelm ours.

The sum of all these worries adds up to exactly zero help in making investment decisions. They have simply been fears that have kept so many investors from participating in one of the most dynamic and persistent bull markets in history. A little real analysis reveals that most of these fears are irrelevant, overblown, or simply untrue.

Fundamentals of economic growth have been steadily improving. Corporate profits are real and are accumulating at an astounding rate. Corporate cash levels have never been higher and dividends and stock buy-backs are steadily increasing. Profits are at all-time highs and are likely to continue to grow. Investors, take note.

It is useful to look back at the past century; one of the most violent ever. It was marked by two world wars, innumerable smaller ones, civil strife, civil rights battles, women's suffrage, assassinations, a great depression, many recessions, inflation, deflation, and frequent turmoil. Yet the stock market over that century returned over 12% per year when averaged. Our issues today seem small in comparison and certainly manageable.

Forecast

Economy

In last quarter's "Perspectives", we predicted that the economic growth rate would accelerate during the second half of this year. So far, many economic indicators are proving this point. Auto sales are near pre-crisis levels and the housing market continues to improve. The U.S. recently reported the best export total ever for a month. To be sure, everything is not great; it never is. However, there is real growth and continuing momentum for our economy.

It is also now clear that Europe has already bottomed and is in the early stages of recovery. Since the world is now so interconnected, this is a plus for us. China never crashed as so many investors predicted. In fact, it is showing modest improvement too.

Many companies have been slow to reinvest in their own firms. This is likely to change as all capital investment needs to be refreshed. A pick-up here will accelerate economic growth. At Riverplace Capital, we believe that this will happen soon.

(continued)

Talk With Us

With this edition of "Perspectives," we begin our 16th year of service to our clients. The past 15 years have been eventful. We believe that the next 10, eventful too, will be much more favorable for investors. At any rate, we expect to be here as a high quality, growing investment management firm. In fact as we continue to bring younger principals into the firm, we want to ensure perpetual service to our clients.

We have partnered with the Bank of New York to offer trust services for those clients that need them. This is a necessary service for some families. We are in the position to offer the same high quality investment services to these trusts that we provide for other types of accounts.

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Notice

Check out our new web site. It is still a work in progress, but offers a lot more information for you. A 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

MAJOR INDICES AS OF 9/30/2013	
Large Cap Stocks (S&P 500)	17.9%
Dow Jones Industrial Average	15.5%
Mid Cap Stocks (S&P 400)	21.9%
NASDAQ Composite	24.9%
Small Cap Stocks (Russell 2000)	26.4%
MSCI EAFE	13.36%
Barclay Aggregated Credit Index	-3.05%
Inflation	1.5%

(EQUITY INDICES ARE NINE-MONTH RETURNS EXCLUDING DIVIDENDS)

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Forecast *(continued)*

Equities

This past quarter was strong in July, weak in August, then again strong in September. In total, it was a very good quarter. Even concerns about Congressional dysfunction couldn't derail the stock market in late September. The reason, we believe, is that the economy is beginning to accelerate. This fundamental trumps all other concerns for the moment. As Riverplace Capital has stated many times before, fundamentals of business performance drive stock prices more than any other factor. Congressional dysfunction, as well as many of the fears listed in the beginning of this report, should be considered noise by serious investors.

The stock market looks poised to break-out to new highs. We hope that happens. We believe the surprise will be how high this market goes and how durable this trend could be. There is still so much money on the sidelines that needs to earn a return, but has not yet been put back to work. This is bound to happen before this cycle concludes. We are keepings our fingers crossed.

Fixed Income

Interest rates have clearly bottomed. They are rising in a typically irregular fashion. Riverplace Capital believes that we are at the beginning of a long-term process. Interest rate cycles are usually long. The trend of rising rates could last a decade or longer.

At the very least, rates have a way to go in order to just reflect current conditions. Then there is the possibility of inflation as result of the Fed policies. This will push interest rates even higher. That possibility is a ways off, but likely. We will write more about his in future editions of "Perspectives".

Talk With Us cont'd

The majority of our clients are individuals; however, we have a strong core of institutional clients. We like serving both. The institutional sector is very competitive, but it keeps us sharp. It also keeps us on the cutting edge of change in the investment landscape.

We have continued to invest in our business. Software is a critical component of how we perform our tasks and serve you. Change is never ending. The tools that we have to work with are miles ahead of what we had when we started the firm.

We recently embarked upon a project to revamp our web site. We want to make it client centric and easy to use. We have a lot more information and in time will continue to add services to our clients, including account access, account aggregation, personalized messaging. In the meantime, check out our weekly blog. It offers near-term insight into current investment related events. There will soon be a history of past quarterly newsletters along with the latest one. Any interim President letters that discuss investment related events will also be posted for your perusal. We also intend to enhance your quarterly statement to include more history and other helpful information.

As always, we value your comments. Being large has never been an important objective to us; we simply want to be among the **best**. We want to continue to improve what can be made better,

Talk with Us.

Investment Strategy

Equities

We are all in; fully invested. Riverplace Capital is only making a few changes to enhance performance. Our focus is on the industrial, technology, energy and financial sectors. We believe these sectors will lead the next market advance. Where appropriate, we are also increasing our allocation to European equities. Europe has economically bottomed and their stocks are cheap. These stocks could play catch-up and outperform our domestic stock market for some time.

Fixed Income

Now that interest rates are rising, we are beginning to look for fixed income instruments that meet our criteria. We aren't finding much yet, but at least rates are moving in the right direction; higher. We are still looking for shorter-term obligations, because we expect rates to continue to rise.

For those that can accept a little more volatility, our preference is to own mid to high paying dividend stocks. Companies have been raising dividends and benefiting from good market conditions. These portfolios have gains from both the dividend income and stock appreciation. It has been a rare occurrence to have so many companies pay higher dividends than they pay interest on their bonds. RCM believes this is an opportunity not to be missed.

Wealth Management

We are increasing the allocation to European equities. We expect these to benefit from European recovery. Performance in some of these markets should outperform our domestic market for some time. We will also eventually add to emerging market allocations, but it may be a little early to do that yet.

VISIT OUR WEBSITE AT WWW.RIVERPLACECAPITAL.COM