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JOHANSON FINANCIAL ADVISORS

Looking in the Rear View Mirror

2013 – Looking in the rear view mirror

This is a great time of the year to reflect upon 2013. What a year it has been. With the media hyperventilating over a “fiscal cliff”, a spending sequestration, a Detroit bankruptcy, a partial government shutdown for 16 days, a debt-ceiling debate, and ObamaCare – the U.S. stock markets staged its best performance since 1995.

To be exact, 2013 turned out to be the best year of this new century. Congratulations to you for keeping a long-term focus and braving much of the worry that some pundits dish out. Investors are generally rewarded by ignoring the media hype and keeping a long-term view.

In 2013, stocks and bonds went in different directions. The Dow Jones and S&P 500 were up by more than 26% this past year. The international stock market index, as measured by EAFE, climbed 21%, but the Barclays U.S. Aggregate Bond Index, a broad measure of fixed income activity, was slightly down -2% for the year. Gold was down -28% for the year.

For the economy, the year began with the unemployment rate at 7.8%. As the year concluded, the unemployment rate went down closer to 7%. At this moment, inflation seems benign, gas prices have come down, real estate pricing has improved all along with consumer sentiment. Consumers that are working tend to feel a little more hopeful about their future.

The key ingredient to a successful 2013 may have had to do with some uncertainty being lifted. We now can see a little clearer through the fiscal and monetary fog.

2014 – Looking ahead is more important than looking back

One of the hidden gems of the past couple of years has been the good news about the annual budget deficit. For the 2nd year in a row, nominal government spending declined. This trend should continue on into 2014. The sequestration and government gridlock has at least meant that the government is growing less than economic trends have expected. This bodes well for trying to get closer to a more balanced budget…fingers crossed.

The focus for 2014 will be upon corporate earnings, an accommodative Fed, and an improving economy.

- Corporate earnings should once again grind higher and hit an all-time high.
- An accommodative Fed should again allow the economy plenty of liquidity.

- A housing recovery should continue albeit at a little slower with all of the new home building at current levels.
- The world economic engine is expected to continue to improve.

Even though we believe that last years “great” year will lead to a “good” year in 2014, as prudent financial management should dictate, we plan on being careful going forward. Rebalancing your portfolio will be an integral process for January. The Bull market seems to be aging gracefully. The current Bull market is up 164% over the past 55 months while the average Bull markets since 1926 lasts 57 months and appreciates 165%. Be aware that we are trending towards the average duration of a normal Bull market cycle.

We saw two time periods in 2013 where the markets lost 6% or so in May and August. It would be very normal to expect a little more volatility in 2014. We should expect at some point during 2014 to see the markets decline 10-15%. This is not only normal but healthy for the markets. So again, while we embrace 2013 and hope for a good 2014, look for a little more volatility. As history has shown; two steps up and one step back.

With the knowledge that we have had several years of stock market growth, we may very well find that the 2007-2008 terrible stock market decline might give way to a longer growth cycle as witnessed by the growth cycle after the great depression in 1929-1930.

It's a fool’s errand to guess how a particular stock, ETF, or mutual fund may perform in the next twelve months. There simply are too many random variables at play to make any kind of solid prediction with intellectual honesty. It is much easier to look at long-term economic trends and cycles and invest appropriately.

Conclusion

We will be rebalancing client portfolios at the beginning of the year to protect the integrity of the original investment policy. We plan on keeping your equity portfolio balanced between different asset classes (sectors, styles and geographic locations). We will complement that with some alternative investments and whatever fixed-income allocation is appropriate for your goals and risk tolerance. We will continue to maintain short-term durations in your fixed-income portfolio.

Over the long term, a smart allocation strategy will likely add more to your performance than guessing what’s going to be up or down over the next twelve months.

We hope your 2014 is filled with health, love, peace, and prosperity. We look forward to seeing you soon. If you have any immediate questions, always feel free to give us a call.

Happy New Year!