

Nauset Market Commentary Second Quarter 2013

Market Performance Recap: Chippy Markets, Mixed Results

Interest rates jumped during the second quarter as the Fed signaled its intention to reduce easing policies. Stocks lost ground in the final six weeks, but the Dow Jones US Total Market Index managed to generate an up quarter of +2.8%, and now stands at +14.1% YTD. While stocks were up, bond prices fell sharply, posting a drop of -1.7% in the Barclays Intermediate Gov/Credit Index.

Economic & Market Discussion: The End of Easing

The markets turned rocky last quarter when the Fed announced that it would begin tapering its easing policy later this year and end it by mid-2014. Since 2008, monetary policy has been a one-way ride of accommodation, pushing short-term rates to near-zero levels. The artificially cheap money has provided an underpinning to the economy and financial markets. And now, the Fed has judged that the economy has strengthened sufficiently for this aid to come to an end.

The transition from this unprecedented wave of monetary stimulus to a normal Fed stance will not be neat or smooth. The Fed's unwinding will be cautious and dependent on continued reports that the economy is on firm footing. Therefore, we believe that the end of easing is a positive economic signal. However, the reduction of Fed easing will continue to push rates higher, hurting bond prices, and equities will feel the sting of higher borrowing rates. While neither result is helpful, the return to an economy that can stand on its own is a good and necessary outcome.

Our strategy during this current and continuing period of volatility is to maintain our focus on high quality and high dividend US-centric equities, including some growth exposure. Our fixed income allocation is underweight and primarily in multi-sector, hedged and floating rate bond funds. And per our usual portfolio construction, we will hold hedged equity and alternative investments to mitigate risk.

Market Index	Market Performance					% Change for Periods Ended 6/30/2013				
	Second Quarter	2013 YTD	1-Year	3-Year Annual.	5-Year Annual.					
Dow Jones US Total Mkt.	2.79	14.14	21.43	18.71	7.40					
S&P 500	2.91	13.82	20.60	18.45	7.01					
MSCI EAFE – Non-US	-2.11	2.18	15.14	6.73	-3.59					
BarCap Intermediate Gov't/Credit Bond	-1.70	-1.45	0.28	3.14	4.57					
BarCap Municipal Bond	-2.97	-2.69	0.24	4.46	5.33					
3-Month T-Bill	0.02	0.03	0.08	0.09	0.23					