

Nauset Market Commentary Third Quarter 2013

Market Performance Recap: Taper Delay Boosts Stocks

The Fed delayed the start of its tapering of easing policies to later this year or into 2014. Investors cheered the continued stimulus as interest rates slid lower. The resulting rally in stocks pushed the Russell 3000 (broad U.S. stock index) up +6.4% for Q3, and +21.6% YTD. Bond prices retraced earlier declines on the taper delay, posting a +0.6% gain in the Barclays Intermediate Gov/Credit Index.

Economic & Market Discussion: Beyond the Shutdown Noise

The ongoing government shutdown and default threat is creating investor angst across all markets. The fear is not so much centered on the specific drop in government activity, but rather that the potential loss of consumer confidence may trigger an economic slowdown.

While we do appreciate the risks from the shutdown and default scenarios, the real market challenge remains the level of economic growth and consequently, corporate profits. Like past politically-generated crises, the impasse will be solved, but likely not the underlying debt issues. The real investor question is: can the economy build on the past several quarters of solid growth? With markets near all-time highs, we believe that stronger growth and earnings will be necessary for continued gains. That is the real risk and pressure on the markets beyond the political noise, and why we are cautious on stocks near term. We continue to foresee a volatile transition as the Fed eventually does taper stimulus and the economy moves forward on its own.

We are maintaining our strategy that emphasizes quality, dividend-paying equities with some growth exposure. Our income allocation is underweight and defensive as we expect rates to creep higher. And as part of our newly implemented asset allocation system, we are actively managing allocations to alternative investments as needed to mitigate risk.

Market Index	Market Performance					% Change for Periods Ended 9/30/2013				
	Third Quarter	2013 YTD	1-Year	3-Year Annual.	5-Year Annual.					
Russell 3000	6.35	21.30	21.60	16.76	10.58					
MSCI EAFE – Non-US	11.56	16.14	23.77	8.47	6.35					
MSCI Emerging Markets	5.77	-4.35	0.98	-0.33	7.22					
DJ US Real Estate	-2.86	1.83	3.85	11.17	5.56					
BarCap Intermediate Gov't/Credit Bond	0.62	-0.84	-0.49	2.42	4.95					
IQ Hedge Multi-Strategy	3.51	3.08	3.22	2.92	3.63					
3-Month T-Bill	0.01	0.04	0.07	0.08	0.15					