Uncommon
INSIGHT
SYM FINANCIAL ADVISORS NEWSLETTER

WINTER
2013

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SYM
Financial Advisors
Uncommon relationships. Uncommon results.

Disasters Have A Way Of Not Happening

In a year when looming disasters in the global economy were believed to be inevitable, the S&P 500 was up 16 %, the Russell 2000 was up 16.35%, the MSCI EAFE was up 17.32%, and the all country MSCI AC World Index was up 16.60%. Since the market low in March 2009, the global stock markets have doubled. By definition, this is a bull market. However, because of persistent pessimism, it is one of the most uncelebrated bull markets in history. Economists, strategists, and analysts continue to identify the unresolved issues below as reasons long-term investors are uncertain and find themselves trapped between an unattractive economy and low yielding investments:

- Europe and Greece's likely fiscal collapse
- Excessive money printing by the Federal Reserve through quantitative easing and other programs
- Frustration aimed at the US government because of unresolved structural deficits and overall debt
- Elevated unemployment rates and poor job creation statistics
- US Government credit downgrade and political turmoil in Washington
- Looming Chinese economic growth slowdown and subsequent hard economic landing
- Syria's potential use of chemical weapons
- Iran's destabilizing nuclear program
- North Korean missile tests by questionable new regime
- Higher domestic taxes
- Possibility of lower entitlements
- Excessive Dodd-Frank financial regulation
- Uncertainty around ObamaCare legislation and its effects on the overall economy
- Growing healthcare costs
- Exploding college tuition rates
- Global warming
- Etc.

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What we don't hear often is the good news in the market and the economy:

- 12 consecutive quarters of GDP growth
- Record corporate profits and profit margins
- Equity valuations attractively priced around 12.5 times forward earnings
- Rising dividends with yields approaching 3%
- Four million new jobs created over the last three years
- Energy prices declining and US domestic production increasing exponentially
- Housing starts increasing with 30-year mortgage rates hovering around 3.5%
- Manufacturing returning to the US
- Record retail sales with a consumer that has significantly reduced household debt

Former Secretary of the Treasury Robert Rubin once stated, "Nothing is certain – except uncertainty." And Dean Witter addressed the issue of certainty with these comments he made some 78 years ago, right before the end of the worst bear market in history: "Some people say they want to wait for a clearer view of the future. But when the future is again clear, the present bargains will have vanished."

When everything is certain to everyone, like in the late 1990s technology bubble, the actual risk is far greater than the perceived risk.

Stocks Should Remain a Rewarding Asset Class over Time

Uninspiring market performance since 2000 has pushed investors away from stocks and toward bonds. We think the negative sentiment around stocks may be overdone, and stocks should remain a worthwhile asset class over time. Stocks have a long-term history of outperforming bonds, have provided a margin of safety against inflation, and are affordable relative to past valuations, especially when compared to US Government bonds.

The S&P 500 Index's performance since 2000 has been like a wild ride on a roller coaster. An investor who put $10,000 in the S&P 500 Index at the start of 2000 wound up with $12,300 at the end of 2012. Over the identified twelve year period, the investor would have experienced significant moves in both directions. This movement has, quite understandably, resulted in a scenario where those who are faint of heart have been pulling out of stocks. Since 2007, $450 billion has been withdrawn from domestic stock funds, despite a bull market that has moved higher since March 2009 and an S&P 500 index soaring 110% through December 2012. (Note: we mentioned this above).

We believe investors who are avoiding stocks are disregarding a critical fact and the bigger picture that stocks have outperformed all other asset classes over time. We believe stocks are likely to continue to do so in the decades ahead. The current global economic outlook, although not without uncertainties, gives us yet another reason to be optimistic about stocks for the long run.

Certainly bonds are generally less volatile and have achieved positive annual returns more frequently than stocks. We also believe that bonds are a critical component in a diversified portfolio. Not only do they offset the inevitable downside that stocks suffer from time to time, they also support cash flow needs. That being said, we think if too much reliance is placed on the safe harbor of bonds, growth can end up being limited for long-term investors. A 10-year US Treasury Bond purchased today and held to maturity would provide an annual income of 1.75%. Even if the inflation rate is a low 2% for the next ten years, you will still have lost some ground to inflation. Stocks, on the other hand. are a claim on profits and corporate assets which typically appreciate over time with the general level of prices. This helps to explain why stocks have produced attractive inflation-adjusted returns. According to Ibbotson Associates, since 1926 large-cap stocks have recorded a 6.6% compound annual return after inflation.

In 1981, at the beginning of a 20-year bull market, 10-year Treasuries yielded a record 15.8%. Today's 10-year Treasury offers a yield, as previously noted, of 1.75%. If interest rates rise from their current "subnormal levels", an event that seems inevitable at some point, fixed-income returns are likely to turn negative. This is because higher bond yields result in lower bond prices.

The average price/earnings ratio for the S&P 500 Index has been 16.9 since 1935. Today, stocks in the S&P 500 Index are selling on average at only 16.5 times trailing earnings and only 12.5 times projected earnings for 2013. What's more, stock valuations look decidedly more attractive than Treasury Bond valuations, in our estimation. The bond market, as represented by the Barclays Capital Aggregate Bond Index, now yields less than 2%, while the earnings yield – the inverse of the price/earnings ratio – for the S&P 500 is 6.2%. Additionally, when 10-year Treasury yields are less than their 50-year average of 6.7%, which is certainly the case today, the stock market's price/earnings ratio has typically expanded to levels above 20 times earnings. If that kind of expansion in the P/E multiple materializes in the years ahead, stocks would have considerable return potential.

Greed, Fear, and Opportunity

At SYM, our game plan is to use future volatility to our advantage. We call it the "Fear, Greed, and Opportunity Approach." Currently we are more than 85% invested in large cap stocks, 70% of which are US-based companies. Should the market sell off for some reason in future months, we will look to reallocate more funds to small cap stocks and emerging markets. If not, we are well positioned to participate in the continued upside potential for global equities.

The mass exodus out of stocks worked well for the very few who timed an early 2008 exit out of equities. Since early 2009, the performance of stocks has handily outpaced bonds. While the comfortable security of US Treasuries has suited investors over the last five years, a rude awakening likely awaits this crowd when the uncertain economic clouds surrounding us eventually lift.

SYM Investment Committee

The Bond Market of 2013

Now What?

A year ago we wrote, "The challenge with bond selection is not the lack of bond investments, but the intelligent short and long-term implementation of bond themes against the back-drop of the largess of the world economy calibrated against the risks of duration, credit, and human emotion." So how did we do in 2012? Our calibration worked quite well as indicated by our taxable and tax-free bond returns. We measure our returns against the Bar Cap US Aggregate Bond Index. That index, in 2012, had a positive return of 4.21%. SYM's Taxable Bond Portfolio had a total return of 11.87% (before fees) and our Tax-free Municipal Bond Portfolio had a total return in 2012 of 5.36% (before fees). The question must now be asked: "Now what?"

As of this writing, the 10-year US Treasury bond yield is 1.86%. That number is 26 basis points higher than it was a month ago and 43 basis points higher than the 2012 low. Since the low last July, we've experienced good news as evidenced by economic growth and more accommodations from the key central banks of the world. Although most of our 2012 returns, by design, did not come from the treasury market, the returns do reflect less credit fear than we experienced in 2011.

SYM continues to be optimistic about our taxable fixed income portfolio for 2013 but also foresees that total returns should be something lower than they were in 2012. To reach this conclusion, we have looked at a number of macro-economic and bond specific data points.

Ben Bernanke recently stated, "In particular, the Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate, at least as long as the unemployment rate remains above 6-1/2 percent inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored."

In other words, financial repression is serving as a means for eventual economic growth. The central bank of the United States projects no major change in interest rate policy until the end of 2015 or until the unemployment rate drops below 6.5%. Although we remain aware of duration risk given the continuation of low bond yields, we are not overly concerned in the short-run due to a slowed domestic economy and the position taken by our central bank. Europe's central bank is providing debt relief to its struggling nations through a combination of rate reduction and austerity. While the capital markets were relieved that the immediate issues of

Congratulations!

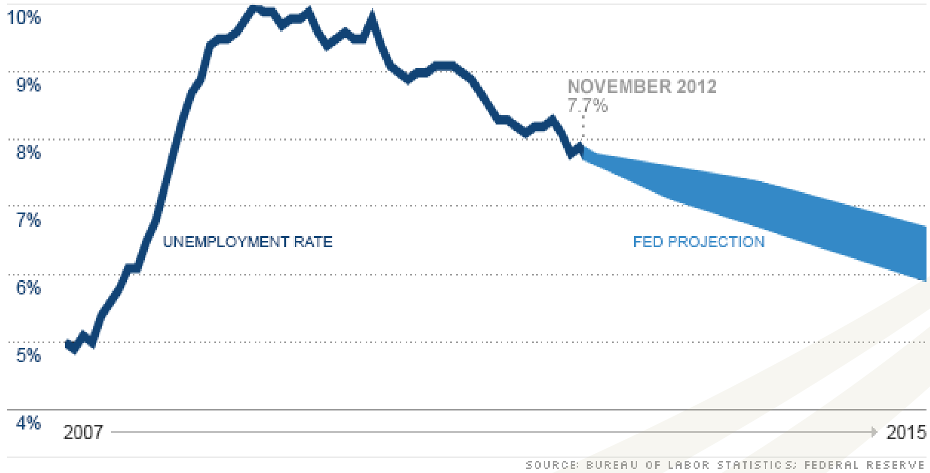
SYM Financial Recognizes Top Employees for 2012

Brad Duling was honored with the annual President's award, a distinction selected by SYM's Board of Directors. The award goes to the SYM team member deemed the Most Valuable SYM employee of the year.

Brad made a huge impact on nearly every client in the company through his leadership in the implementation of new software. His product knowledge, confidence and attitude allowed SYM to reach new heights in client service.

Sarah Delahanty was awarded the Client-First Service Award. This award goes to the SYM employee who exemplifies our mission of placing our clients first, and providing the best client service possible.

Sarah brings tremendous presence and experience to our clients and the SYM team. She maintains an exceptional work ethic and consistently goes to great lengths to ensure clients are provided with precise data, while managing various projects, local events and working to attain her CFP designation.



the "fiscal cliff" were resolved, domestic economic growth still faces headwinds. Although the specific negative economic issues around the "fiscal cliff" were real, the preoccupation with the short-term fixes took the attention off of the real long-term problem. Transfer payments, the debt to GDP ratio, deficits, unemployment, and tax reform are the real challenges that will not go away until they are intelligently resolved by our more erudite thinkers. If our government continues to print trillions of dollars (or coins), the ultimate consequences of currency debasement and eventual inflation cannot be ignored.

In the past we have spoken to the realities of economic globalization and have been advocates of global free trade. Free markets create a consumer that benefits capitalism and, therefore, revenue and profit expansion. However, this also means that countries with too much debt supporting their prior growth can cause a global economic slow-down. With that slow-down comes continued pressure on domestic wages and economic growth.

Wages as a percentage of GDP have been declining steadily for over 65-years. Consequently it should not be a surprise to discover that most jobs gained during the recent recovery (2010 Q1 to 2012 Q1) have been in lower-wage occupations. Median household income from 1/1/2000 through 10/31/2012, when adjusted for inflation, is down 8.1%. The nominal growth rate during this same period was 25.9%. It also should not come as a shock to understand that inflation adjusted consumer spending intentions since 1999 are at an all-time low. Diminished purchasing power does not support sustainable job growth. Combine that with central bank limitations and you have an economic growth scenario that is modest at best.

The continuation of balance sheet expansion by central banks has worked only to a point. Economic growth continues to be muted despite central bank money printing and overall financial repression. A look at domestic equity performance in the United States after each round of quantitative easing shows an overall lessening effect in both returns and duration. After the announcement of QE1 the S&P 500 had a cumulative performance of 50%. After QE2 was announced, the S&P 500 had a cumulative performance of 30%. After Operation Twist was announced the S&P 500 had a cumulative performance of 18%. Since the Twist extension and QE3 was announced, the S&P 500 has had a cumulative performance of 8%. Why does this matter as we strategize our bond portfolios? For a couple of reasons: First, we are getting to a place where central bank intervention is losing some efficacy as it relates to market stimulation. Secondly, it appears that these efforts do not motivate a significant pick-up in the economic growth rate. Along with the central banks' articulated policy of not raising rates, at least until 2015, it makes for a non-inflationary environment with modest growth expectations. Against that back-drop, interest rate risk to our portfolios is a tertiary concern as compared to maximizing returns with credit and sector selection.

We feel that by keeping our bond durations within the short to intermediate range, we will be successful in keeping our clients out of negative consequences. However, if yield spreads become more attractive in the various bond categories, we might be tempted to stretch a bit more in terms of duration. For the most part, spreads have significantly narrowed over the last year, and we will continue with our current portfolio duration. In terms of credit exposure within our portfolios, we remain flexible as long as our holdings stay in the investment grade space overall.

A comment about the 1 trillion dollar coin – we hope the upcoming debate regarding the annual budget deficit will not further erode The United States' credit rating or bring too much world-wide attention to our larger deficit problems. As long as the United States has a printing press, our ability to pay our sovereign debts is 100%. However, what should remain a concern is the purchasing power of our currency.

Thanks to an odd loophole in current law, the U.S. Treasury is technically allowed to mint as many coins made of platinum as it wants and can assign them whatever value it pleases.

Under this scenario, the U.S. Mint would produce (say) a pair of trillion-dollar platinum coins. The President orders the coins to be deposited at the Federal Reserve. The Fed then moves this money into Treasury's accounts, and, just like that, the Treasury suddenly has an extra $2 trillion to pay off its obligations for the next two years — without needing to issue new debt. The ceiling is no longer an issue. Of course, then we have other concerns.

THE SYM DIFFERENCE

If you have any questions about the management of your portfolio, please don't hesitate to contact your advisor and/or team.

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