WINTER 2014

Uncommon INSIGHT

SYM FINANCIAL ADVISORS NEWSLETTER

SYM Financial Advisors

Uncommon relationships. Uncommon results.

Believe It Or Not

In our newsletter a year ago we made the point that sometimes disasters have a way of *not happening*. Throughout 2013 we focused on the possibility the market may surprise investors with better than expected gains as the economy continued to recover and grow. We entered the year with plenty of worries. In addition to the usual list of politically oriented unknowns, there were specific concerns around the likelihood of a "double dip" recession due to the sequestration, tax increases from the "fiscal cliff" legislation and the implementation of the Affordable Care Act. Yet, fast forward to today, and believe it or not, the economy is showing signs of serious expansion. In the third quarter annualized GDP growth was revised upwards, from 3.6% to 4.1%. The S&P 500 finished the year at all-time record highs. In fact, the economy has been growing for almost 5 years now, and payrolls have risen by nearly 7.5 million since early 2010. The current oil and gas boom in the U.S. midwest continues to garner little reaction, yet with each passing day we become less reliant upon outside sources of energy, and our economy benefits from lower energy costs. Even with specific examples, most investors are having a hard time accepting these promising achievements.

Last year we expected a "great rotation" out of bonds, into stocks, as interest rates inevitably rose. Rates have risen. The rotation is a reality today because some deeply held investor skepticism became optimism as the markets rallied. However, the modest inflow is but a drop in the bucket compared to the more than $600 billion of outflows from equities during the 2007 to 2012 period. This could well be a key factor in the continued upward bias of the stock market in 2014.

2013 is now behind us. How do we best get positioned for 2014? Will it be a slow and steady year? Perhaps another "surprise" year to the upside? Could this be the year when the bears' prediction of a pull-back finally comes true after years of warnings?

As we start 2014, the price-earnings ratio (P/E) is a comfortable 17 (see chart) and the new risk is no longer just about a potential slowing economy. We are also anticipating the pos-

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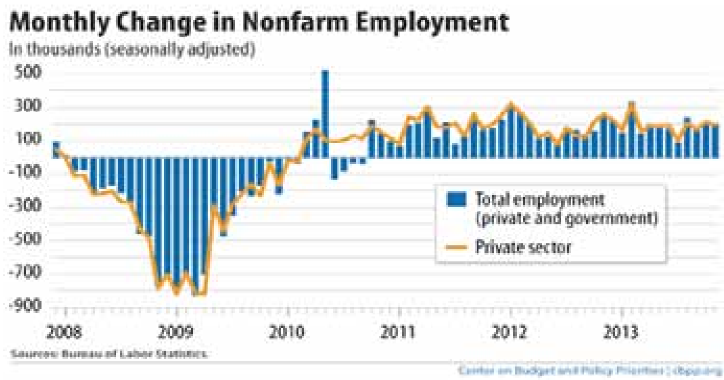
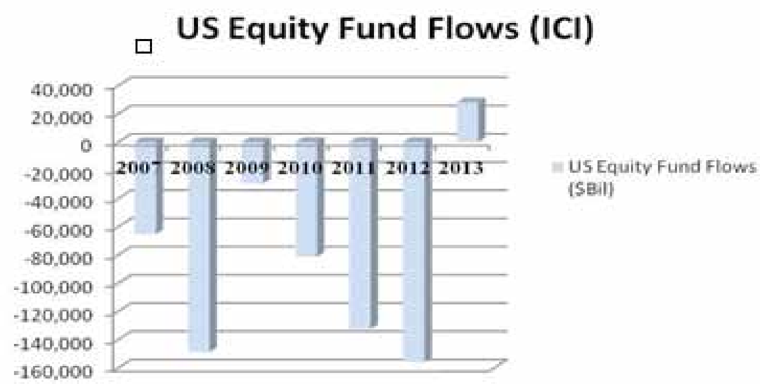




sible effects of a shift of trillions of dollars in capital currently hiding in low-yielding accounts such as savings accounts, CDs, and Treasuries. While positioned in their respective investment vehicles, these monies have missed out on the doubling of the S&P and the tripling of the NASDAQ from the 2009 lows. While 17 times earnings may seem like an expensive number, history tells us the stock market can move up to higher multiples of earnings before they get expensive relative to other investments like bonds. The bulk of stock market gains historically result from P/E expansion as investor fear transitions to optimism; an emotional change not solely related to improved corporate earnings and GDP growth.

Already there are many calling this market a bubble. We disagree because this period has not exhibited three common traits of market bubbles: excessive leverage, optimism and valuations. Instead we suggest that what we are experiencing might potentially be a collapse of a bubble in pessimism. Perhaps excessive skepticism has held back the positive outcomes of otherwise reasonable economic growth.

Stay With the Bull

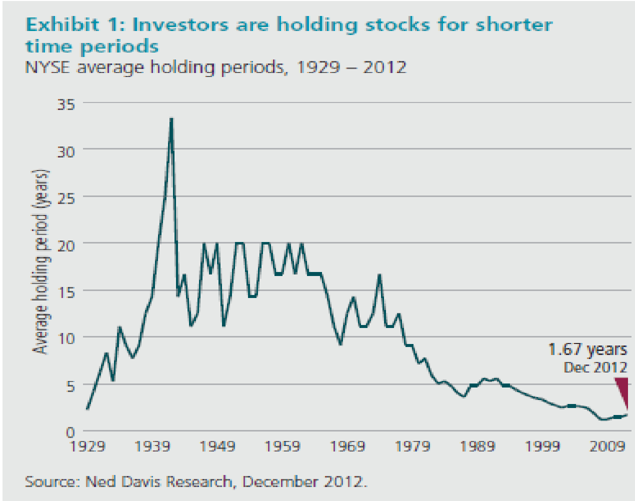
Pessimism is now the market's worst enemy; distorting the thinking of professional traders, the media, and investors. Ominous headlines predicting the biggest bubble of all time suggest that fear and panic is still prevalent in spite of continuing forward progress in the global economy. While calling the next bubble is profitable for the financial media looking for ratings, it can be very unprofitable for investors if it causes them to trade in and out of the markets. Though emotionally attractive, such actions have been repeatedly shown to damage investor returns over longer periods of time. Bubble talk will likely continue in 2014, but why? Consider that unemployment is down to 7.0%. This is the lowest level since 2008. As mentioned previously, annualized GDP growth for third quarter was revised up from 3.6% to 4.1%. Though investor sentiment is becoming more bullish, we remain far below extreme levels. These are all healthy indicators of a reasonable economic environment.

Some investors like to think there is a way "*to have your cake and eat it too*". One continuing trend is the high demand for alternative investments that promise to reduce the volatility of a portfolio and still capture upside. For example, one such fund, the J.P. Morgan Market Neutral Fund, in its prospectus states it *"seeks to provide long-term capital appreciation from a broadly diversified portfolio of U.S. stocks while neutralizing the general risks associated with stock market investing."* That sounds great, but in the last 3 years it has returned less than the anemic return on cash.

Despite all of the most favorable performance being in equities of late, the mutual fund companies are adding lots of new alternative vehicles, increasing their sales teams, and aggressively marketing the funds. Uncertain investors are hearing the sales pitch and are asking for these alternative investments to be employed in their portfolios in spite of the poor results. What comes hand in hand with these alternative investments? Fees. Large fees.

One key factor to consider is that over the last 80 years, holding periods for stocks have declined from over 20 years to just 1.6 years today as more and more investors employ short term strategies in long term portfolios. To the contrary, we think now is a time to align with the bull market and enjoy participating in the growth of economic innovation and earnings in the global economy for many years to come.

While we have focused on the U.S. stock market, the story is much bigger than just the United States. The emerging markets, better defined as high growth, high potential economies, continue to be the likely drivers of global advances in the future. This



applies to companies located in these markets and for companies that sell and profit from these markets. In an integrated global economy, old-fashioned approaches that define investments on a company's country of domicile are quickly becoming less valuable. Most large companies have customers and/or suppliers in multiple countries. To base an investment decision on where a business is incorporated or has a headquarters building provides little insight about the potential success of that company or its stock price. Since 2006, SYM has identified our equity and bond portfolios as simply "global".

Warren Buffet is often quoted as saying *"be greedy when others are fearful".* We agree. Interim corrections are inevitable and will occur, perhaps early in 2014. Even so, we continue to see quite a bit of fear related to the sustainability of this bull market in stocks. Mr. Buffet continued by stating there will be a time to "*be fearful when others are greedy"*. We're not observing significant, consistent greed yet so we don't believe now is the time to be fearful and have concluded that the path of least resistance for global markets is still up for the foreseeable future. Please keep in mind that stock markets don't go up *after* the economy improves; they actually go up well before. Given the market gains in 2013, the economy in 2014 could surprise us as to how well it performs.

SYM Investment Committee

2013 Client Survey

As noted in a recent message, SYM is currently reviewing the results from the 2013 client survey. Thank you to all who had the time to participate. Your thoughts provide helpful guidance as we consider enhancements to our services. SYM enjoyed our highest response rate ever, roughly double that of the industry, and we sincerely value the personal comments and feedback you shared. SYM takes great pride in collaborating with our clients, and your feedback allows us to deepen and strengthen our uncommon relationships.

An article in Morningstar Advisor Magazine referred to a "Trust Barometer Study" conducted by the public relations firm, Edelman, in 2013. Utilizing a scale from 1 to 5, with 5 representing "most trustworthy", respondents were asked to indicate their level of trust as it related to interactions with an advisor in the financial services sector. In the Edelman study, the average score was 2.5 out of 5. We are proud to report that in the survey categories of "Trust" and "Overall Satisfaction" SYM received ratings of 4.9 out of 5.

We look forward to providing additional results and implementing enhancements as we move into 2014. Again, please accept our sincere thanks for your participation and willingness to help make SYM a stronger firm into the future.

SYM Employees from photo on page 1 - left to right: Nick Gray, Elle Turley, Jessica Rusnock, Sarah Delahanty, Terri Savill, Natalie Deatsman, Faye Jagger, Mary Pat Latowski, Seth Whicker, Fred Helfrich, Steve Yeager, Rod Coleman, Jerry Yeager, Neil Donahoe, Jeff McGraw, Crystal Creekmore, Jonathan Slocum, Rhonda Peugh, Dan Pacheco, Julie Wiegand, Kristin Whitacre, Rebecca Davis, Kris Black, Lisa Frauhiger, Tom Ackmann.

Not Pictured: Andy Popenfoose, Brad Duling, Brandon Stewart, Bruce Hubbell, Deb Jones, George Wolfson, Tami Hartman, Jonathan Hueftle, Kaleigh Stoddard, Karen Thomas, Mitchell Stewart, Rick Harrison, Sheila McLaughlin.

2013 SYM Award Winners

President's Award

Since joining SYM, Nick Gray has contributed much to the concept of 'uncommon results'. By sharing his experience and insight, forged from years of putting clients' needs first, he has made a substantial impact on our service and become one of our greatest Ambassadors.

Nick is an active and respected member of the community. When asked what he likes most about his job, he'll tell you, "Making a difference in people's lives". We are proud to announce him as the recipient of our highest award, the President's Award.

"Client First" Service Award

Over the course of her career, Julie Wiegand has taken to heart the concept of 'uncommon relationships'. Her exemplary service is reflected in the warmth of her greeting, the calm and care she brings to each interaction that follows, and the uncommon ways in which she serves our clients. Julie routinely accepts the challenges of a thriving firm, all with an eye toward the client.

Julie and her husband are active in and enjoy the Fort Wayne community. We are pleased to honor her with the Client First Service Award.

2014 - The Move Into Unconstrained Bond Market Management

The Merriam-Webster dictionary defines constrained as: to limit or restrict (something or someone).

A year ago we wrote that financial repression through monetary policy would continue to serve as a stimulus for economic growth. At that time we understood that the central bank of the United States projected no major change in interest rate or monetary policy until the end of 2015 or until the unemployment rate dropped to 6.5% or if inflation picks up meaningfully beyond 2.5%. We began 2013 with our bond portfolio duration neither long nor ultra-short. Specifically, we had our duration calibrated between 2.75 and 3 years during the first three quarters. A May review revealed that both our relative and absolute performance was quite good, and we felt we had properly positioned our bond portfolios to mitigate the risks of future interest rate increases. Beginning in the second quarter of last year, financial pundits started discussing the possibility of a "taper" (reduction of the central banks bond purchases of $85 billion each month). The ensuing months of May, June and July saw a major outflow from bonds and, not surprisingly, interest rates shot up within the intermediate and longer part of the yield curve. However, as the 10-year domestic treasury yield moved up from a low of 1.65% to an intra-day trading high of 3%, it was not lost on SYM that the central bank did not taper during this period. In fact, an official taper announcement did not occur until December of 2013. Starting this January, the Fed will reduce the bond purchases from its current level of $85 billion per month to $75 billion per month. Further, outgoing Federal Reserve Chairman Ben Bernanke said in a press conference that he "could foresee the bond-purchase program coming to an end by late 2014". Although there was no formal change in Fed policy until the end of the year, bond prices were hit relatively hard many months earlier. At SYM, maintaining a shorter duration portfolio kept clients shielded from the losses experienced by those with intermediate and longer term maturities. However, based on our observations of 2013, we determined that there was a disconnect between the bond market and central bank policy. It appeared that intermediate and longer term maturities were moving independent of what was being disseminated from Federal Reserve meeting notes. The bond market had seemingly differentiated itself from the mathematical correlation between policy and performance. Therefore, SYM's Investment Committee reasoned that we should not only shorten duration further, but also move more of our clients' assets into "unconstrained bond funds."

Five years ago central banks around the world began unprecedented measures of easing monetary policy in order to stabilize and ultimately expand their economies. Almost immediately, there was a concern that "bond vigilantes" would step in and manipulate the bond market. A "bond vigilante" is an investor who sells bonds because they view fiscal and monetary policies as inflationary. These transactions then cause the value of existing bonds to decrease and the ultimate result is higher interest rates. This concern proved unfounded as initial austerity measures in Europe and expansionary policies of central banks in other parts of the world did not lead to a recovery beyond what might be considered tepid at best. That being said, it appears that beginning in May of 2013, the bond market started to reverse the more than 30 year decline in interest rates. While it is difficult to predict when rates will rise further or how high they will go, we felt it imperative to move in front of what we consider a likely eventuality. Earlier this year we wrote that the risk of holding traditional bond portfolios benchmarked against the Bar Cap Aggregate Index did not eliminate the most obvious risks; those being the risk of rising interest rates or duration risk. The purpose of an unconstrained bond portfolio is to give managers significant flexibility. By doing so, we can entrust managers to provide alpha as they actively manage across bond sectors and duration.

Where are we positioned today with our bond portfolio? Our current portfolio duration is 1.25 years, and our 30-day yield is approximately 3.15%. Creating a portfolio of such low duration suggests that we feel the economy will continue to expand and interest rates will continue to increase as we move through 2014 and beyond. Although a bond investor will almost certainly not receive total returns as good as they have over the past thirty years, we continue to believe that bonds have an important place in portfolios and that over time total returns should be acceptable.

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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