RB

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AND THAT'S THE WEEK THAT WAS…
For the Quarter Ended September 30, 2013

Market Matters…

Market/Index	Year Close (2012)	Qtr Close (03/31/13)	Qtr Close (06/30/13)	Qtr Close (09/30/13)	Qtr Change	YTD Change
Dow Jones Industrial	13,104.14	14,578.54	14,909.60	**15,129.67**	**1.48%**	**15.46%**
NASDAQ	3,019.51	3,267.52	3,403.25	**3,771.48**	**10.82%**	**24.90%**
S&P 500	1,426.19	1,569.19	1,606.28	**1,681.55**	**4.69%**	**17.91%**
Russell 2000	849.35	951.54	977.48	**1,073.79**	**9.85%**	**26.42%**
Global Dow	1,995.96	2,110.73	2,110.64	**2,310.26**	**9.46%**	**15.75%**
Fed Funds	0.25%	0.25%	0.25%	**0.25%**	**0 bps**	**0 bps**
10 yr Treasury (Yield)	1.76%	1.85%	2.48%	**2.61%**	**13 bps**	**85 bps**

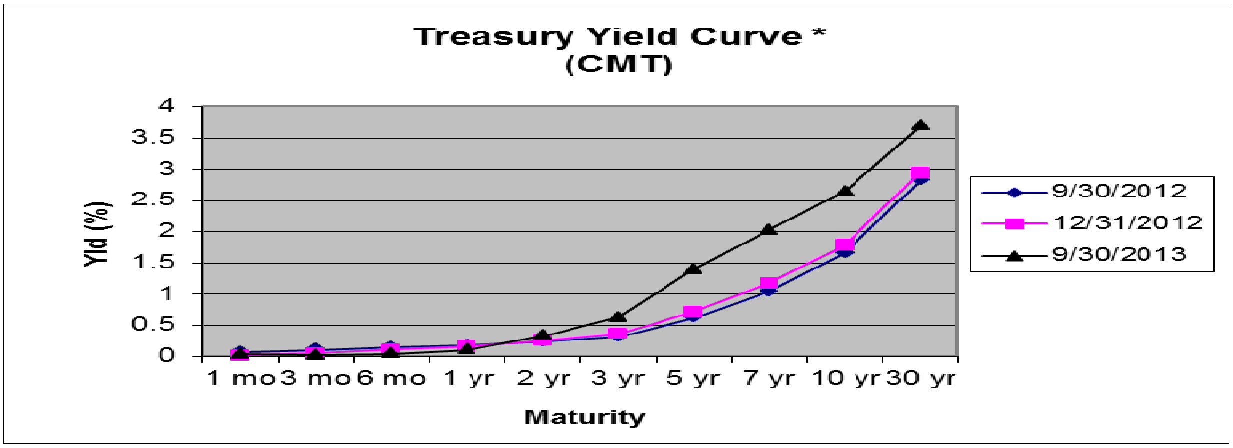
So how does government mesh with investing? When the third quarter began, investors were obsessed with the Fed's "bond buying" stimulus and that sentiment lasted the entire three months (and remains today). As the quarter neared a close, a new obsession emerged as partisan politics reared its ugly head (again) and the gov looked primed for its first shutdown since 1996. (Is Speaker Boehner a Newt wannabe?) Obamacare and foreign policy (Syria) took up more than their fair share of investor worry and news from DC remained atop the headlines of the biz pages.

Through all the uncertainty, investors somehow stayed positive (for the most part) and the quarterly performance was favorable (though with significant volatility). In July, the Fed's game of "kick the can" took stocks to record levels, only to see them falter in a big way in August when many became convinced that the September meeting would bring a major shift in policy. Historically a poor performing month, stocks bucked the typical September trend by surging to new highs as Dr. B. and Co. proved indecisive once again. By quarter-end, investors bemoaned the Washington rhetoric and many took profits and set positions for the homestretch of the year.

Almost lost in the shuffle, corporate boardrooms were active with **Microsoft** buying **Nokia's** cell biz and then approving a sizable share buyback and dividend hike; **Koch** becoming a key **Apple** supplier with the acquisition of **Molex**; **Dell** shareholders approving its privatization move out of the public eye; and **Verizon** competing a record $49 billion bond sale to fund it wireless purchase from **Vodaphone**, a move that may very well change the entire telecommunication landscape. Earnings were mixed with financials and housing companies performing well, but some techs struggled along with the ailing PC market. Auto sales jumped to levels not seen in five years as strong housing means enhanced demand for pick-ups, though initial back-to-school activity was somewhat disappointing. Apple introduced its "new new" thing (again) and over five million iPhone 5s flew off the shelves over three days. (My two year old iPhone still works fine.)

Fickle investors played "one month on, one month off, one month on again" as records set in July were lost in August, but regained in September (though the month ended on a down note on the DC shenanigans). Small-caps performed well and metals, health care, and biotechs leading the equity charge. Bond yields continued their fast trek toward 3% (on the 10-year treasury) given the expected shift in Fed policy and even crossed that threshold before falling back on the policymakers' action (rather inaction). Global markets also performed well as Europe even outgained domestic indexes on expectations that their economies will continue to improve. China overcame early year concerns about a slowdown as recent manufacturing data revealed that its economy is back on track. Similarly Japan's Nikkei jumped as "Abenomics" implied continued resurgence. Still India and certain emerging markets struggled. As the new quarter began, Bernanke is taking a back seat to Congress (though few seem to care what Senator Cruz had to say for 22 straight hours). And thus the uncertainty continues into the homestretch of 2013.

Economically Speaking…



Sell the rumor; buy the rumor that failed to come to fruition. After pundits debated ad nauseam the "to taper or not to taper" dilemma, investors seemed to come to grips that the Fed would begin to end the bond buying program at its September meeting. As the big day approached, investors reappeared to "buy the fact," until Bernanke threw another wrench into the equation and held off yet again. Some policymakers feared economic improvement was "insufficient" and the time was not right to act. (Perhaps a gov shutdown entered into the discussion?) Though the Fed's Beige Book continued to depict "modest to moderate" growth, recent signs of weakness had led to reduced forecasts and the debate rages on for yet another six weeks (at least). In the aftermath of the policy meeting, Dallas Fed Fisher announced his disapproval and stated that he believed the Central Bank was losing credibility. On another Fed note, perhaps it earned some credibility when former Treasury Secretary Larry Summers chose to take his name out of the hat for the Bernanke sweepstakes and investors (virtually unanimously) rejoiced at his decision.

The data points to an economy with "modest to moderate" growth (hey, that Beige Book may be on to something). Manufacturing as measured by the ISM index jumped for the third straight month to its highest level since April 2011. Similar, the ISM services reported showed sector expansion at the fasted pace in about eight years. The numbers from labor were confusing at best, disappointing at worst. The economy has been adding fewer-than-expected nonfarm payroll jobs and the lowest unemployment rate in five years was more reflective of a shrinking workforce than new hires as many folks grew frustrated with their searches and simply gave up. While jobless claims stand at their lowest level since 2007, some analysts point to computer glitches in the weekly California and Nevada reports that may have skewed the data. As a whole, the economy is growing at a 2.5% pace and inflation remains well off the radar screen.

The news abroad was deemed favorable as Superpower China saw its manufacturing sector rise to a 16-month high in August and the euro-zone purchasing managers survey climbed to its best showing in over two years. Heck, even Spain, Italy, and Ireland experienced improvements. Germany rewarded Chancellor Merkel with a new term in office and its business sentiment index bested expectations. While the European Central Bank held rates unchanged at its recent meeting, the policymakers did their best Fed imitation by announcing their intent to leave rates low for an extended period.

On the Horizon…Heading into the final quarter of the year, investors are staring solid double-digit gains clearly in the face. While plenty of uncertainties remain, the gov shutdown and debt ceiling woes seem most alarming as ratings services and global investors clearly keep their eyes on the political dysfunction. As for the Fed, old news at this point (at least until Dr. B. retires).