Economic & Market Commentary
DECEMBER 2013

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Summary

The U.S. stock market punctuated an extraordinary year of gains with a 2.5% jump in the S&P 500 Index in December. Despite headlines of government shutdown, Federal Reserve tapering, and issues in Syria, 2013 will be highlighted as one of the golden years for investors. What makes the year even more remarkable was that nobody was predicting a strong year! The MSCI All Country World Stock Index rose 1.8% for the month and 23.6% for the year as a result of stronger demand and expansion in both the international and domestic markets. For diversified balanced investors, strong global stock returns in December and all of 2013 more than offset weaker performance in other markets including emerging markets, fixed income, and alternatives.

Economy

• Final third-quarter U.S. economic growth (real GDP) came in at 4.1% — a sweeping advance from the second-quarter pace of 2.5%. Domestic growth has been increasing over the past few quarters which is a reflection of U.S. consumers and businesses continuing to regain strength.
• Inflation (CPI) flat-lined in November, restrained by declines in gasoline and natural gas prices.
• Job data was disappointing in December. The labor market participation reached its lowest point since 1978, which was a contributor to the unemployment level falling to 6.7%. Furthermore, employers hired the least number of workers in three years.
• The Consumer Confidence Index climbed back up from 72.0 to 78.1 in December, attributable to a positive outlook on the U.S. economy and job prospects.
• Lastly, the housing market ended the year on solid footing. Housing starts increased to a 1.09 million level, which will help keep pace with population growth and replacement housing.

U.S. Equity

• The S&P 500 Index continued to blossom in December, adding 2.5% and advancing 32.4% for the year. The information technology and industrial sectors were the main drivers of growth for the month.
• U.S. small-cap stocks (Russell 2000 Index) posted a return of 2.0% in December, lagging behind large-cap stocks. However, small-cap stocks are this year's home run as the Russell 2000 ended up a whopping 38.8% in 2013!

Sources: Bureau of Economic Analysis (BEA), Federal Reserve, Institute for Supply Management, JP Morgan, Morningstar, JP Morgan, Standard and Poor's, Wells Fargo, Yahoo! Finance

International Equity

•Developed international large-cap stocks (MSCI EAFE Index) came in just as strong in December, marking up a 1.5% return. This return was driven predominantly by the UK, Germany, and Sweden (up 2.7%, 2.8%, and 3.9% respectively). For the year, developed large-cap markets rose 22.8% in aggregate.
• In contrast, emerging markets were hit hard by a strengthening U.S. dollar and weakening commodity prices. Emerging markets dropped 1.4% in the month and ended the year down 2.6%.

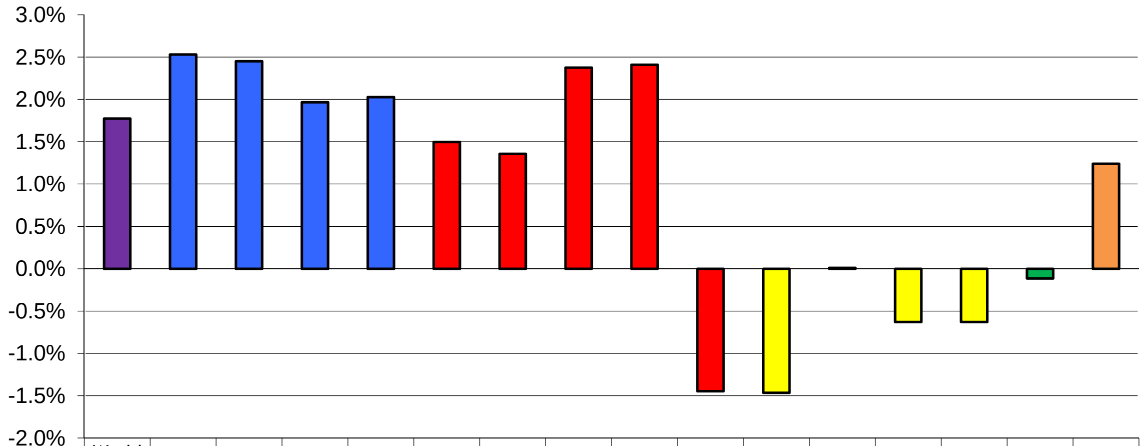
Fixed Income

• The inevitable tapering of the Fed's bond purchasing program finally began in December, with a drop from $85 billion to $75 billion per month. The 10-year Treasury bond yield took the news rather well, ending the year at 3.03%. Due to higher yields, most bond returns were slightly negative for the month while short-term bonds broke even.
• The Barclays Aggregate Bond Index fell 2.0% in 2013 – an unexpected outcome. Negative years for bonds are rare and they are usually short-lived because lower bond prices are eventually offset by higher coupon income.

Alternatives

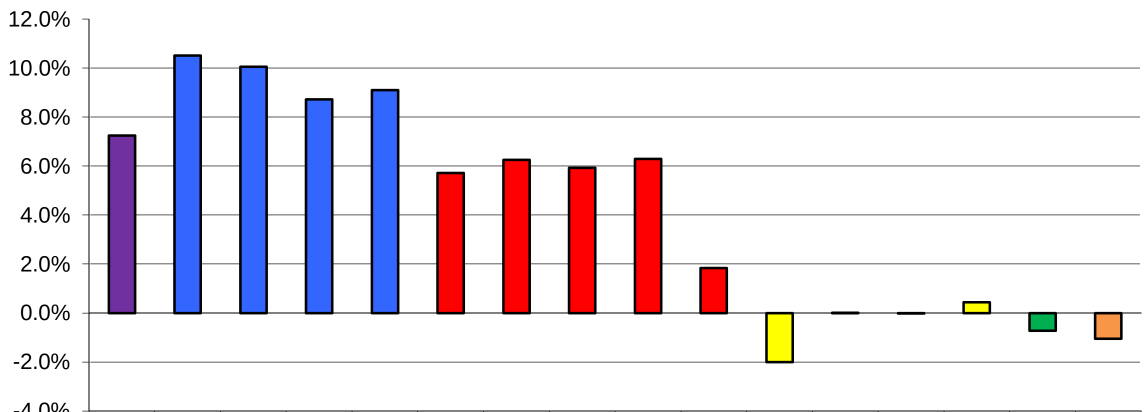
• Commodities (DJ UBS Commodity Index) rose 1.2% in December, thanks to positive returns from the energy and industrial metals sectors. Precious metals, on the other hand, ended the year with a rough final month, dropping 3.7% and ending down 30.8% for the year (DJ UBS Precious Metals Index). Gold had an exceptionally rough year, but weakening gold prices are often a signal of a strengthening U.S. dollar and economy.
• Global REITs (S&P Global REIT Index) weren't hit as hard as commodities this year, dropping only 0.1% in December and ending down 0.7% for the year. REITs are sensitive to interest rates since they use debt to finance growth, so the prospect of higher rates has caused the market to decline this year.

MARKET RETURNS
One Month as of 12/31/2013



	World Stock Index (AC)	S&P 500	U.S. Large Value	U.S. Small	U.S. Small Value	Int'l Large	Int'l Large Value	Int'l Small	Int'l Small Value	Emrg Mkts	TIPS	Short-Term Bonds	Inter-Term Bonds	Int'l Bonds	Global REITs	Comm-odities
1 Month	1.8%	2.5%	2.5%	2.0%	2.0%	1.5%	1.4%	2.4%	2.4%	-1.4%	-1.5%	0.0%	-0.6%	-0.6%	-0.1%	1.2%

MARKET RETURNS
3 Months as of 12/31/2013



	World Stock Index (AC)	S&P 500	U.S. Large Value	U.S. Small	U.S. Small Value	Int'l Large	Int'l Large Value	Int'l Small	Int'l Small Value	Emrg Mkts	TIPS	Short-Term Bonds	Inter-Term Bonds	Int'l Bonds	Global REITs	Comm - odities
3 Months	7.2%	10.5%	10.0%	8.7%	9.1%	5.7%	6.3%	5.9%	6.3%	1.8%	-2.0%	0.0%	0.0%	0.4%	-0.7%	-1.1%

Source: Morningstar Direct. Indices used in above graphs: S&P 500 Index, U.S. Large Value-MSCI U.S. Prime Market Value Index, U.S. Small-Russell 2000 Index, U.S. Small Value-MSCI U.S. Small Value Index, Int'l Large-MSCI EAFE Index, Int'l Large Value-MSCI EAFE Value Index, Int'l Small-S&P EPAC Small Index, Int'l Small Value-S&P EPAC Small Value Index, Emerging Mkts-MSCI Emerging Markets Index, World Stock Index-MSCI All Country World IMI Index, TIPS-Barclays Gbl Infl Linked US TIPS Index, Short-Term Bonds-Ibbotson 1 Yr Treasury Const Mty Index, Interm-Term Bonds-Barclays Interm-Term Govt/Credit Index, Foreign Bonds-JPM GBI Global Ex US Hdg, Global REITs-S&P Global REIT Index, Commodities-DJ UBS Commodity Index.

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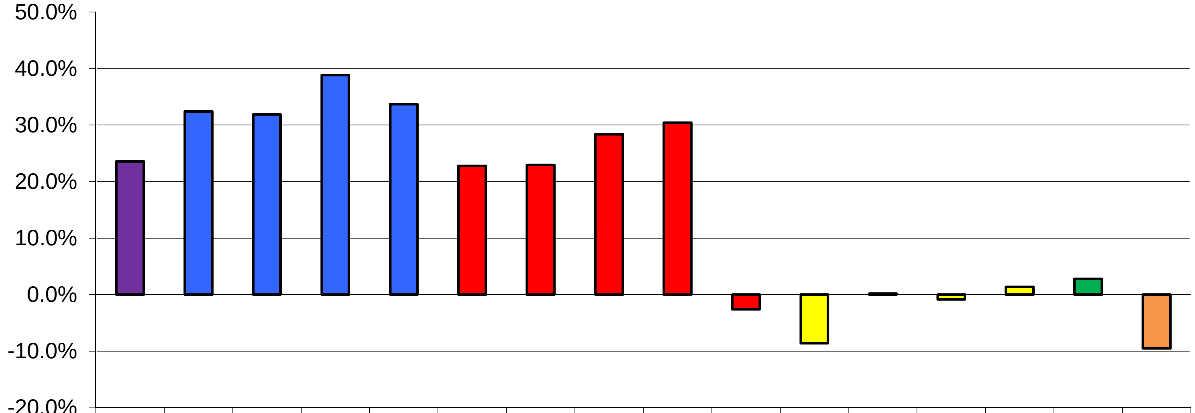
MARKET RETURNS
One Year as of 12/31/2013



	World Stock Index (AC)	S&P 500	U.S. Large Value	U.S. Small	U.S. Small Value	Int'l Large	Int'l Large Value	Int'l Small	Int'l Small Value	Emrg Mkts	TIPS	Short-Term Bonds	Inter-Term Bonds	Int'l Bonds	Global REITs	Comm-odities
1 Year	23.6%	32.4%	31.9%	38.8%	33.7%	22.8%	23.0%	28.4%	30.4%	-2.6%	-8.6%	0.2%	-0.9%	1.4%	2.8%	-9.5%

MARKET RETURNS - Longer Term Annualized as of 12/31/2013

	1 Month	3 Mos	1 Year	3 Years	5 Years	10 Years	15 Years
EQUITIES							
S&P 500	2.5%	10.5%	32.4%	16.2%	17.9%	7.4%	4.7%
U.S. Large Value	2.5%	10.0%	31.9%	15.4%	16.1%	7.4%	6.2%
U.S. Small	2.0%	8.7%	38.8%	15.7%	20.1%	9.1%	8.4%
U.S. Small Value	2.0%	9.1%	33.7%	15.1%	19.9%	9.4%	10.5%
Int'l Large	1.5%	5.7%	22.8%	8.2%	12.4%	6.9%	4.5%
Int'l Large Value	1.4%	6.3%	23.0%	8.3%	12.0%	6.8%	5.7%
Int'l Small	2.4%	5.9%	28.4%	9.8%	17.5%	10.0%	8.4%
Int'l Small Value	2.4%	6.3%	30.4%	10.2%	17.3%	10.6%	10.0%
Emerging Mkts	-1.4%	1.8%	-2.6%	-2.1%	14.8%	11.2%	NA
World Stock Index (AC)	1.8%	7.2%	23.6%	9.8%	15.6%	7.6%	5.3%
FIXED INCOME							
TIPS	-1.5%	-2.0%	-8.6%	3.5%	5.6%	4.8%	6.4%
Short-Term Bonds	0.0%	0.0%	0.2%	0.2%	0.3%	1.9%	2.7%
Interm-Term Bonds	-0.6%	0.0%	-0.9%	2.9%	4.0%	4.1%	4.9%
International Bonds	-0.6%	0.4%	1.4%	3.7%	3.4%	4.4%	4.7%
ALTERNATIVES							
Global REITs	-0.1%	-0.7%	2.8%	9.0%	16.4%	7.9%	10.1%
Commodities	1.2%	-1.1%	-9.5%	-8.1%	1.5%	0.9%	5.5%

Source: Morningstar Direct. Indices used in above graphs: S&P 500 Index, U.S. Large Value-MSCI U.S. Prime Market Value Index, U.S. Small-Russell 2000 Index, U.S. Small Value-MSCI U.S. Small Value Index, Int'l Large-MSCI EAFE Index, Int'l Large Value-MSCI EAFE Value Index, Int'l Small-S&P EPAC Small Index, Int'l Small Value-S&P EPAC Small Value Index, Emerging Mkts-MSCI Emerging Markets Index, World Stock Index-MSCI All Country World IMI Index, TIPS-Barclays Gbl Infl Linked US TIPS Index, Short-Term Bonds-Ibbotson 1 Yr Treasury Const Mty Index, Interm-Term Bonds-Barclays Interm-Term Govt/Credit Index, Foreign Bonds-JPM GBI Global Ex US Hdg, Global REITs-S&P Global REIT Index, Commodities-DJ UBS Commodity Index.
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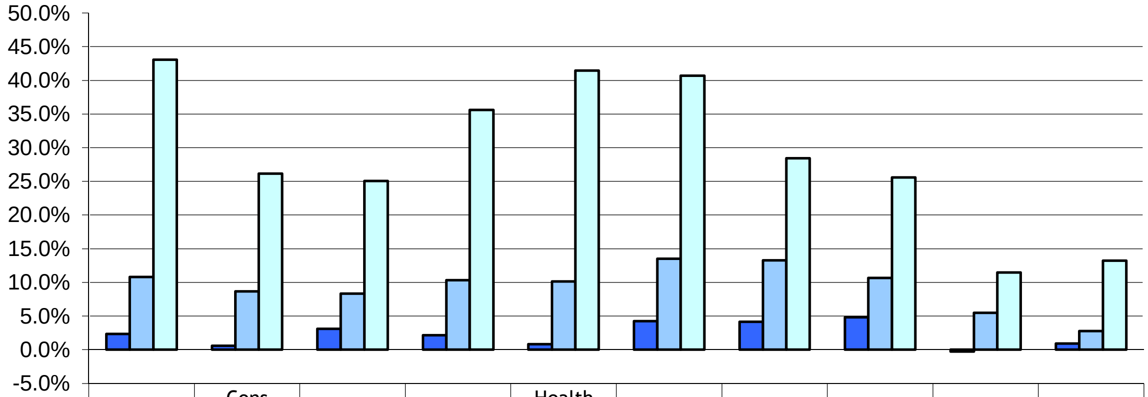
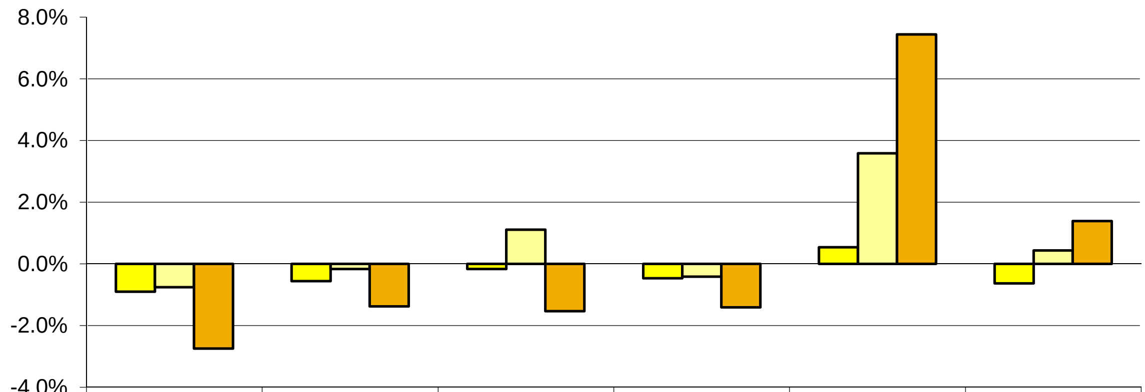
US EQUITY - LARGE-CAP SECTOR RETURNS
As of 12/31/2013



	Cons Discr	Cons Staples	Energy	Financials	Health Care	Industrials	Info Tech	Materials	Telecomm	Utilities
1 Month	2.3%	0.6%	3.1%	2.2%	0.8%	4.3%	4.1%	4.8%	-0.3%	0.9%
3 Months	10.8%	8.7%	8.4%	10.3%	10.1%	13.5%	13.3%	10.7%	5.5%	2.8%
1 Year	43.1%	26.1%	25.1%	35.6%	41.5%	40.7%	28.4%	25.6%	11.5%	13.2%

FIXED INCOME - SECTOR RETURNS
As of 12/31/2013



	Treasury	Agency	Inv Grade Corp	MBS	High Yield	International Govt Hedged
1 Month	-0.9%	-0.6%	-0.2%	-0.5%	0.5%	-0.6%
3 Months	-0.8%	-0.2%	1.1%	-0.4%	3.6%	0.4%
1 Year	-2.7%	-1.4%	-1.5%	-1.4%	7.4%	1.4%

Source: Morningstar Direct. US Equity indices used: 10 S&P 500 sector indices. Fixed Income indices used: Treasury-Barclays US Treasury Index, Agency-Barclays US Agency Index, Inv Grade Corp-Barclays US Inv Grade Index, MBS-Barclays US Mortgage Backed Securities Index, High Yield-Barclays US High Yield Corporate Index, Int'l Govt Hedged-JPMorgan GBI Global ex US Index Hedged.

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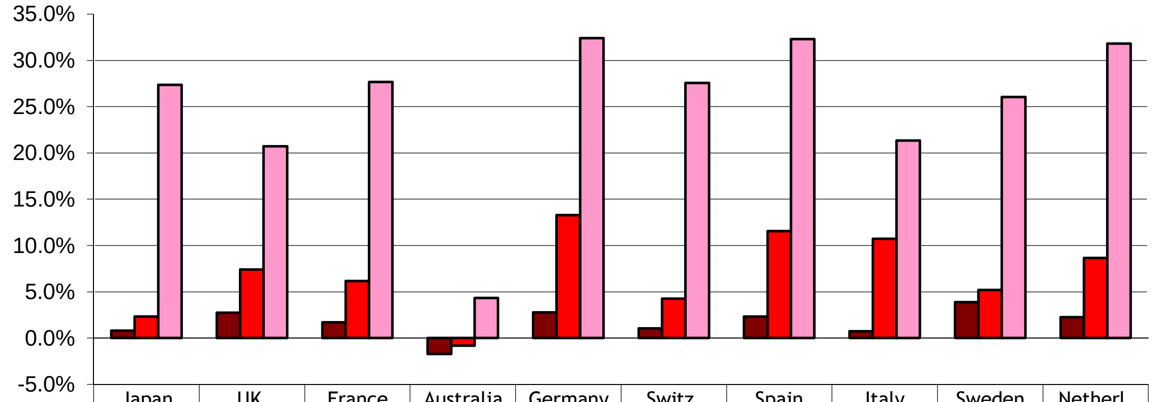
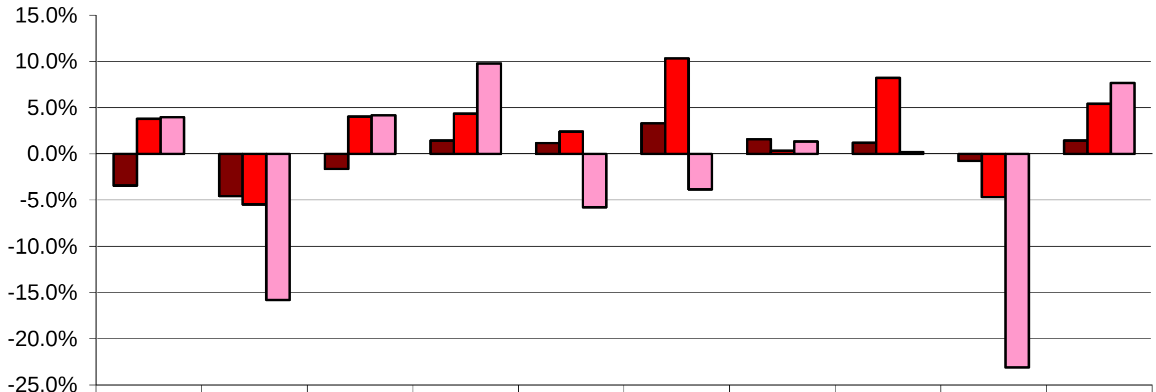
INTERNATIONAL EQUITY - DEVELOPED COUNTRIES
Returns as of 12/31/2013



	Japan	UK	France	Australia	Germany	Switz.	Spain	Italy	Sweden	Netherl.
1 Month	0.8%	2.7%	1.7%	-1.7%	2.8%	1.1%	2.3%	0.7%	3.9%	2.2%
3 Months	2.3%	7.4%	6.2%	-0.8%	13.3%	4.3%	11.5%	10.7%	5.2%	8.7%
1 Year	27.3%	20.7%	27.7%	4.3%	32.4%	27.6%	32.3%	21.3%	26.0%	31.8%

INTERNATIONAL EQUITY - EMERGING MARKETS
Returns as of 12/31/2013



	China	Brazil	South Korea	Taiwan	South Africa	India	Russia	Mexico	Indonesia	Malaysia
1 Month	-3.4%	-4.6%	-1.6%	1.4%	1.2%	3.3%	1.6%	1.2%	-0.8%	1.4%
3 Months	3.8%	-5.5%	4.0%	4.3%	2.4%	10.3%	0.4%	8.2%	-4.7%	5.4%
1 Year	4.0%	-15.8%	4.2%	9.8%	-5.8%	-3.8%	1.4%	0.2%	-23.1%	7.7%

Source: Morningstar Direct. Country returns are the MSCI country index (gross) returns.

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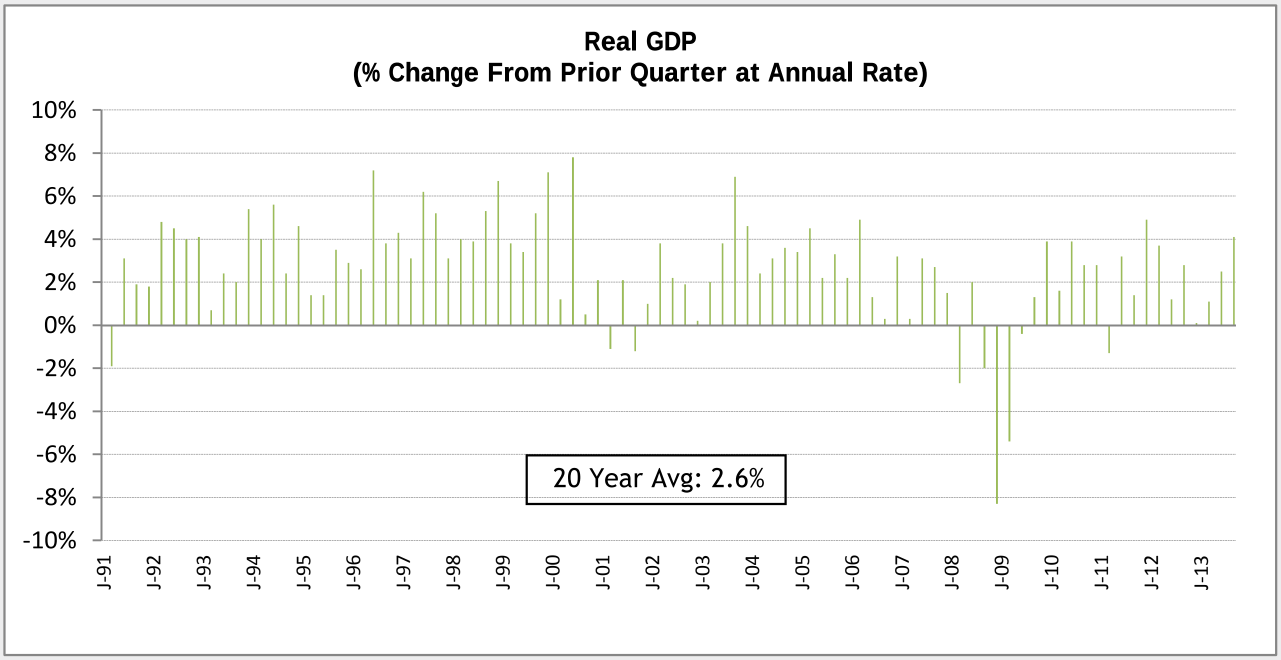
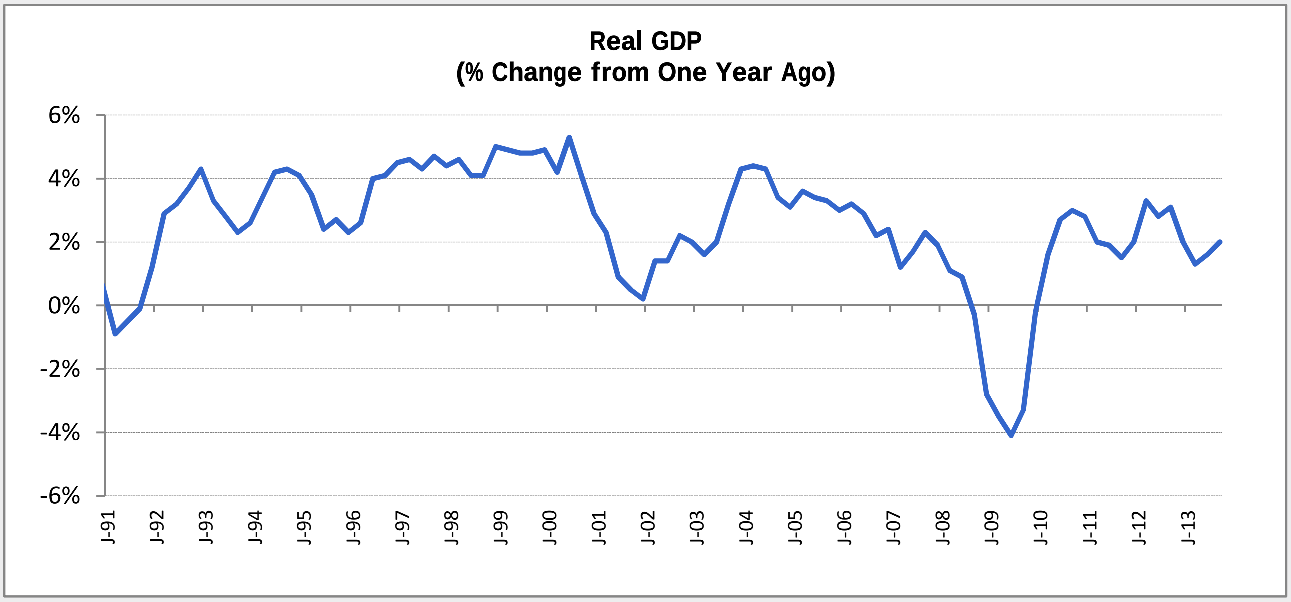


- The final third-quarter U.S. economic growth (real GDP) was revised to 4.1%--a sweeping advance from the second-quarter pace of 2.5%. The upward revision was mainly due to a rise in inventories, which could lead to slower fourth quarter growth.



- U.S. real GDP year-over-year has been positive and is currently 2.0%. The current year-over-year growth is below the long-term average of 2.5%.

Source: Bureau of Economic Analysis. Real GDP data reflects most recently available as of month-end. GDP values shown in top graph are % change vs. prior quarter annualized and reflect GDP revisions since quarter-end. GDP values shown in bottom graph are % change vs. one year ago and reflect GDP revisions since quarter-end.
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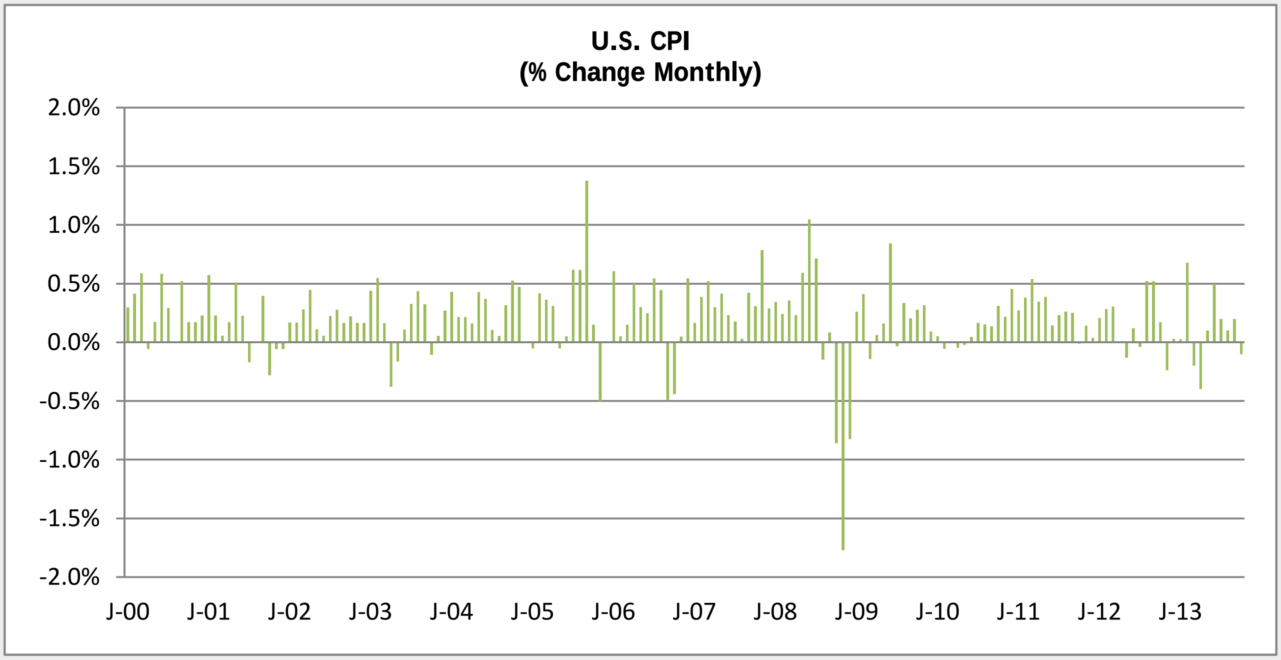
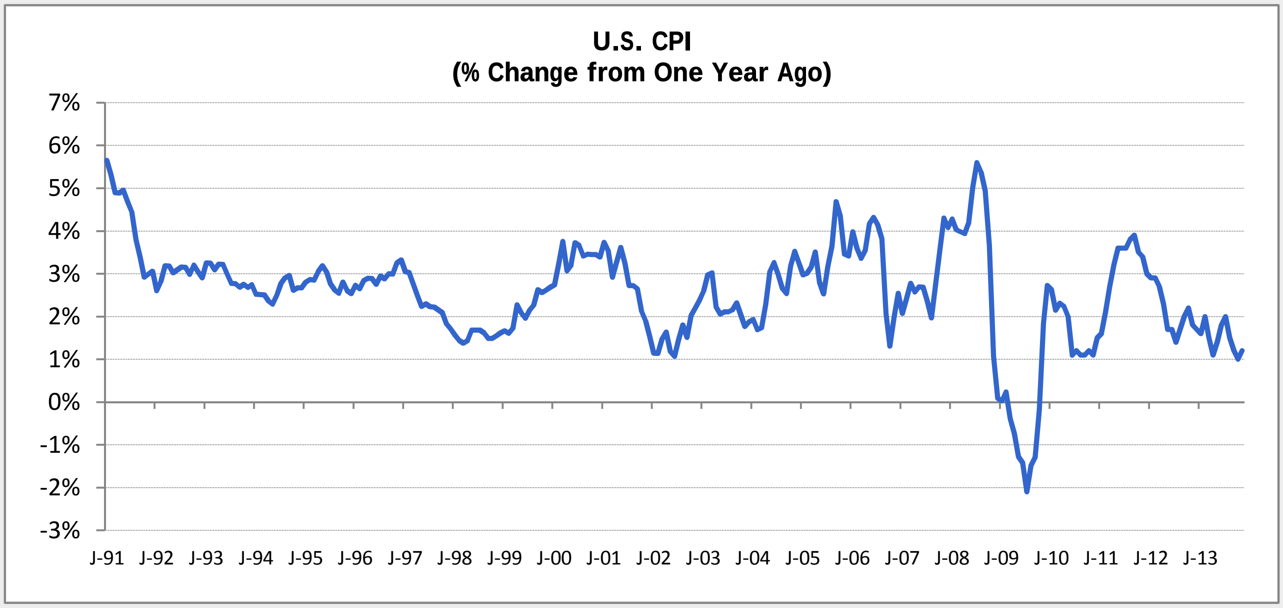
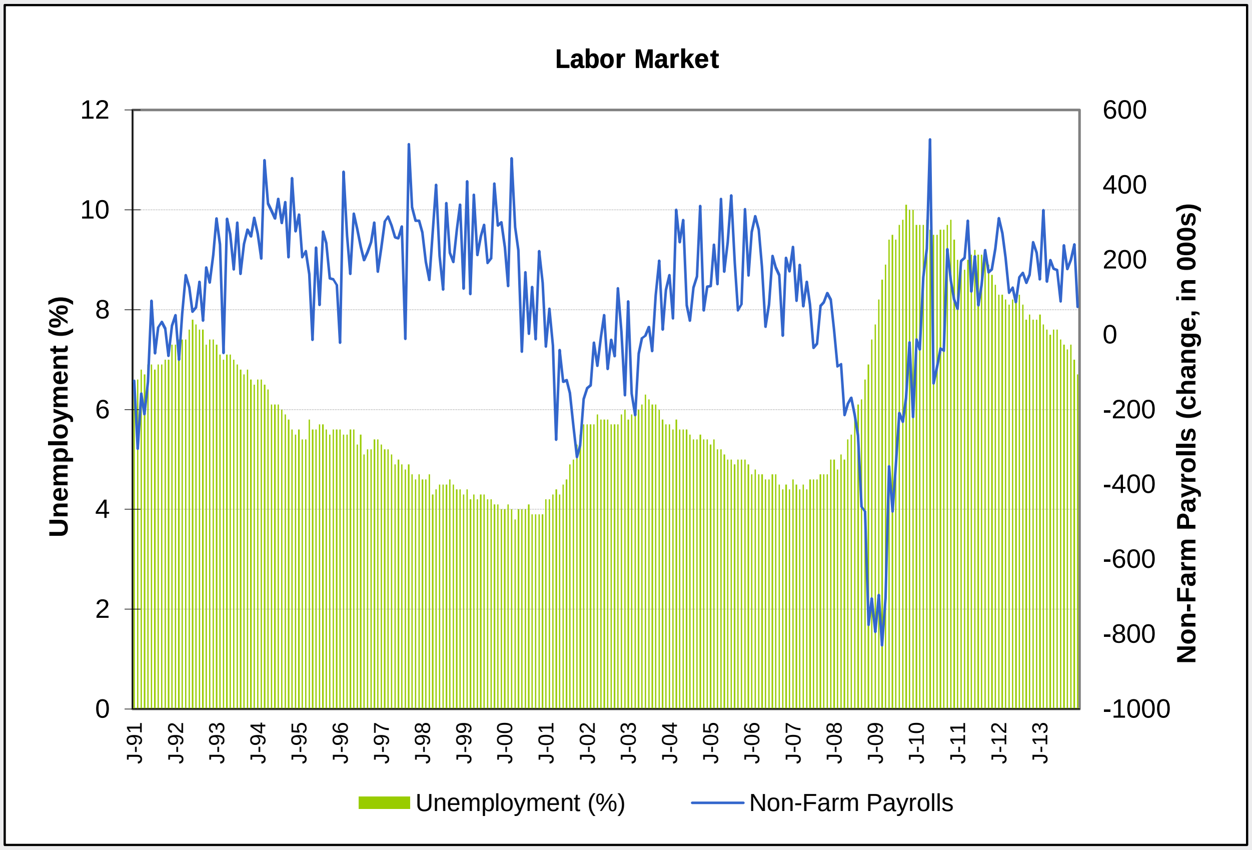


- Inflation (CPI) for the month of November was unchanged mainly due to lower energy costs being offset by higher costs for shelter and airline fares.



- The year-over-year inflation level moderated in 2013 from 1.6% to the most recent level of 1.2%, still well below the Federal Reserve's long-term inflation target of 2.0%.

Source: St. Louis Fed, Department of Labor: Bureau of Labor Statistics. CPI data reflects most recently available as of month end. CPI values shown in top graph are % change vs. prior month seasonally adjusted. CPI values shown in bottom graph are % change vs. one year ago.



- The December jobs data was mixed. Although the unemployment level fell from 7.0% to 6.7%, the payrolls increased by a much slower pace of 74,000 jobs than the 241,000 pace of the prior month.

- The lower unemployment level was mainly due to more people leaving the labor force, than due to people getting jobs. The weather is another factor that likely played a role in the lower payrolls number.

Source: St. Louis Fed, Department of Labor: Bureau of Labor Statistics, Wells Fargo . Unemployment data reflects most recently available as of month end. Non-farm payrolls values are the monthly change in non-farm payrolls (in thousands), seasonally adjusted.
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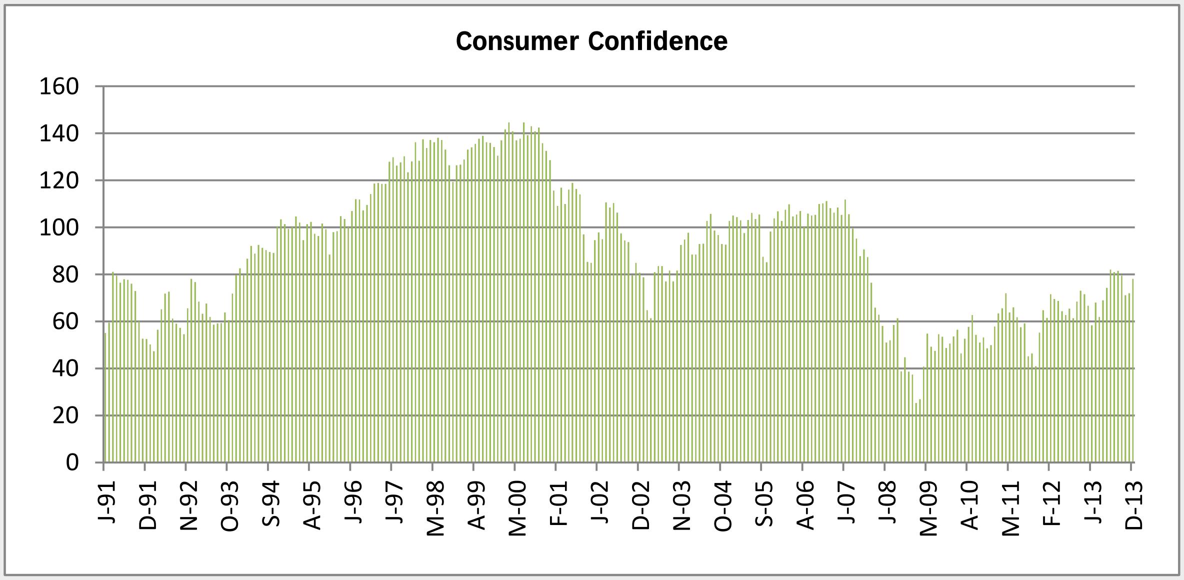
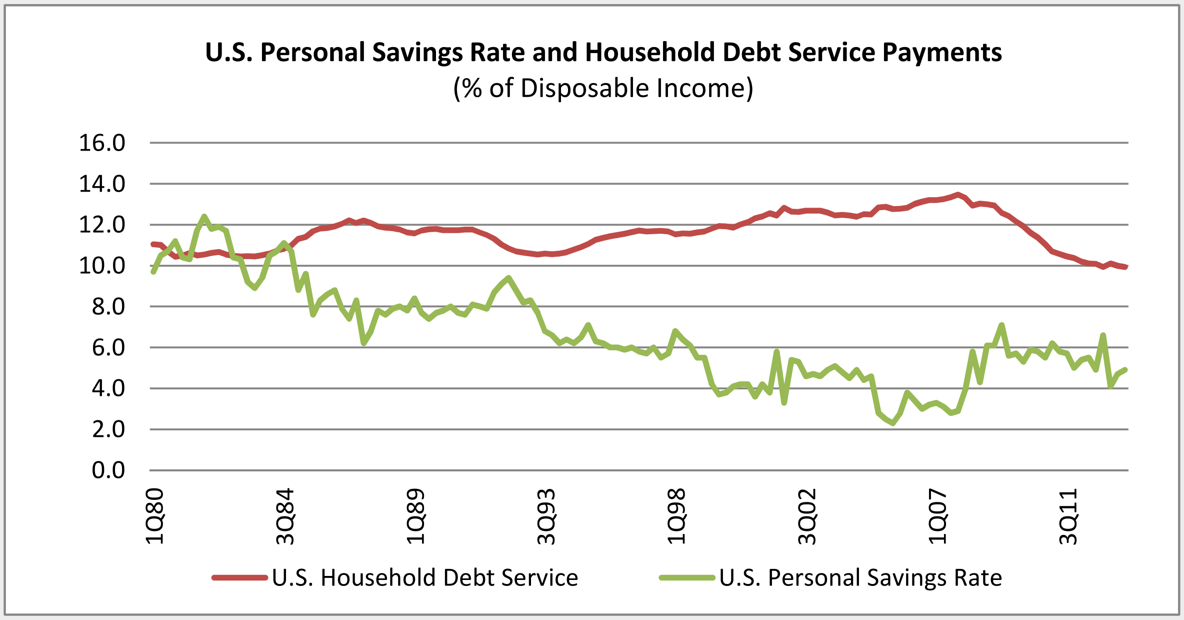


- Consumer confidence ended the year on a high note of 78.1. Stronger consumer confidence in 2013 has been a factor in the year's stronger retail sales.



- U.S. household debt service as a percent of disposable income peaked in 2007 at a high of 14% and has dropped down to 9.9% as of 2013. The U.S. personal savings rate hit a low of 2.3% in 2005, improved for several years, and most recently has been averaging 4.5% to 5.0%.

Source: The Conference Board, Bureau of Economic Analysis. The Conference Board Consumer Confidence Index data is shown in the top graph through month end. Real disposable personal income and personal consumer spending are the % change from the prior month, seasonally adjusted.
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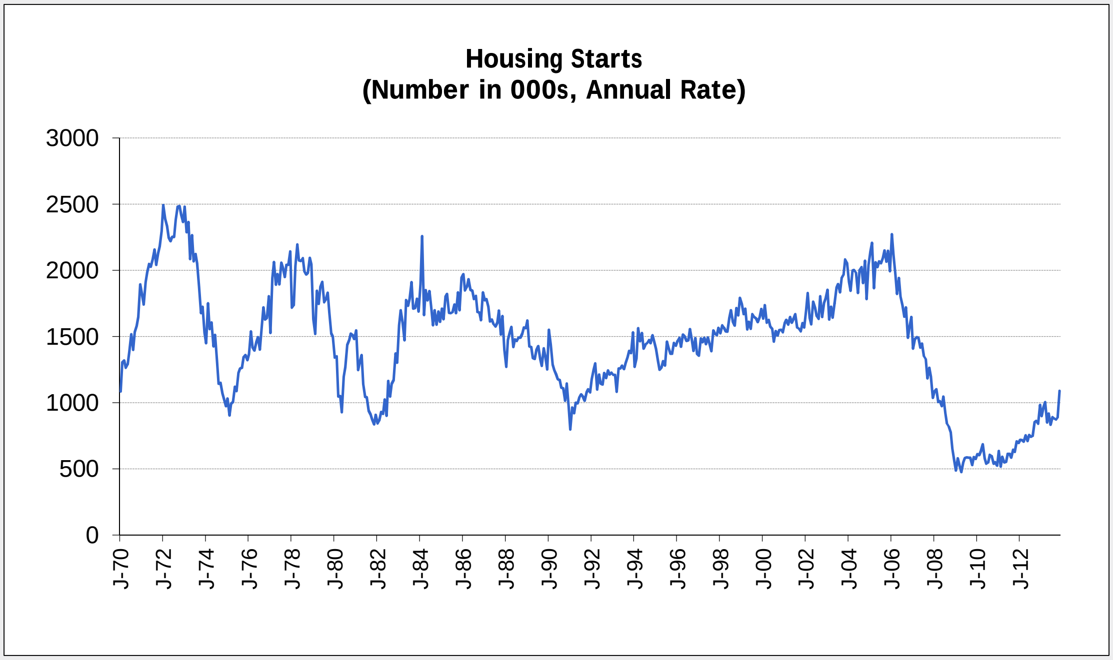
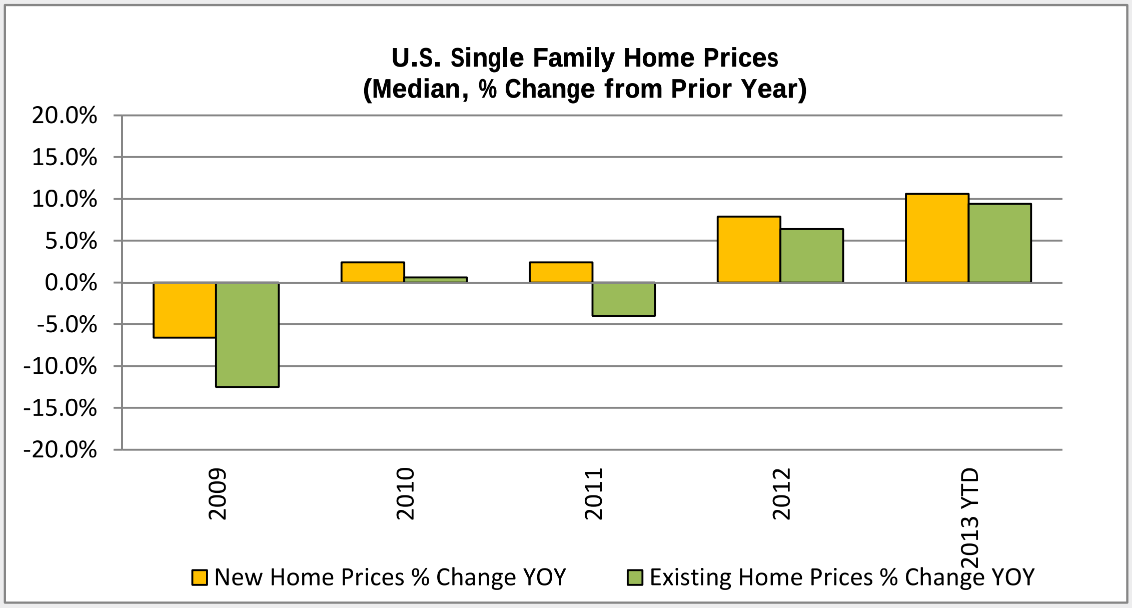


- Housing starts surged 22.7% in November, the strongest increase since the recession ended. The housing starts increasing to the 1.09 million level will help the housing market keep pace with population growth and replacement housing.



- Prices for existing homes have continued to increase in 2013 and are up 9.4% from one year ago in November. Prices for new homes are up 10.6% from one year ago.

Source: National Association of Home Builders, U.S. Census Bureau. Housing starts are the number of privately-owned housing starts (in 000s) each month at a seasonally adjusted annual rate. The U.S. Single Family Home Prices reflect the percentage change in the median sale prices on a year-over-year basis in thousands of dollars, not seasonally adjusted.
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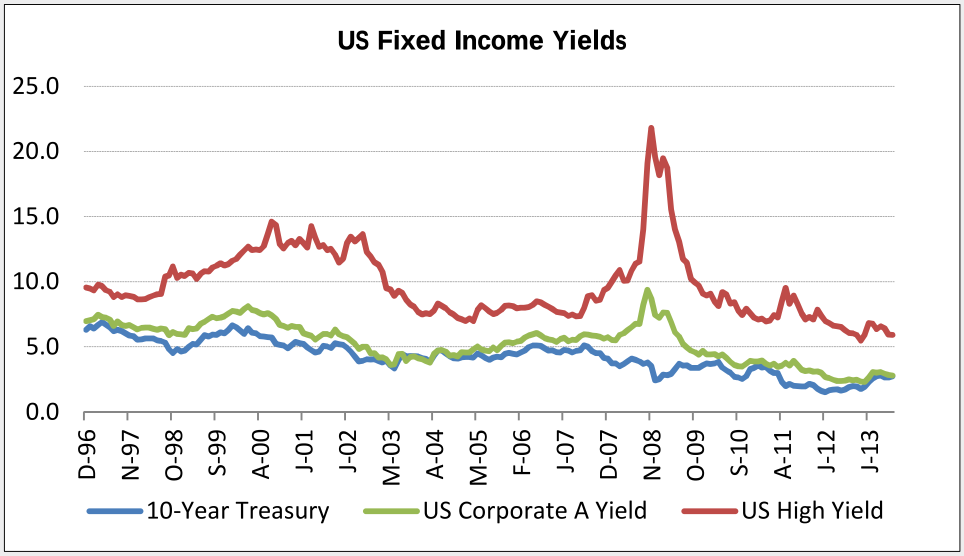
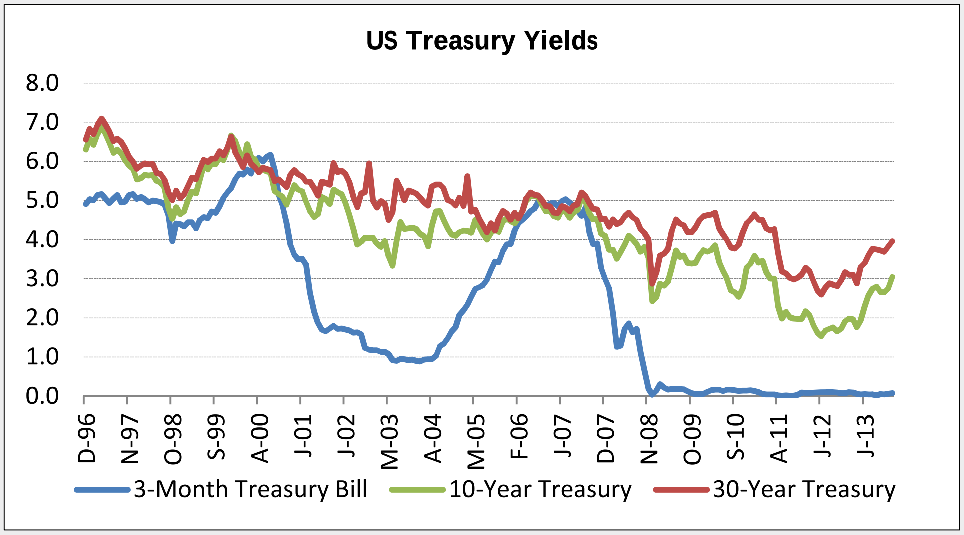
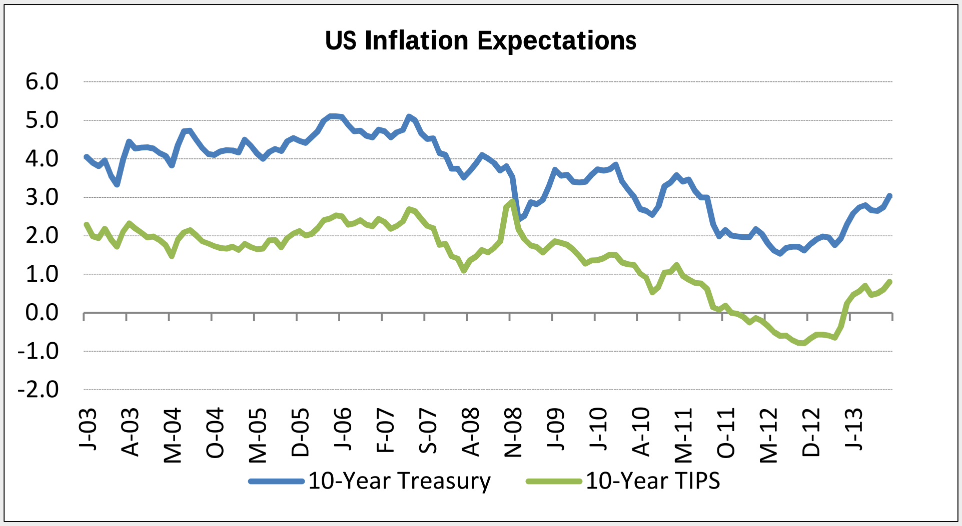




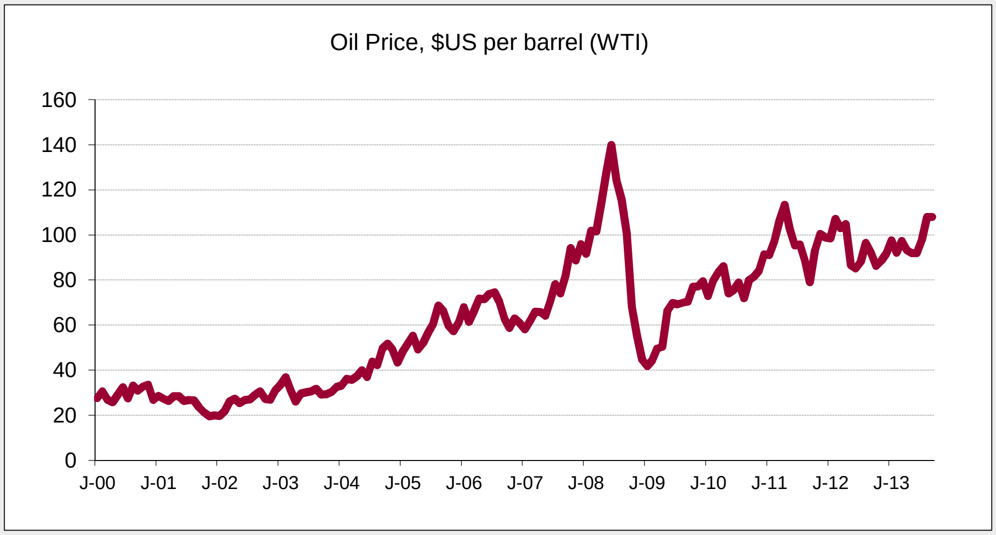
Treasury Yields	
3 Month T-Bill	0.0%
10 Year Treasury	3.0%
30 Year Treasury	4.0%
10 Year TIPS	0.8%

Non-Treasury Yields	
Corporates (A or better)	2.9%
High Yield Corporates	5.9%
Municipal Bonds	2.5%

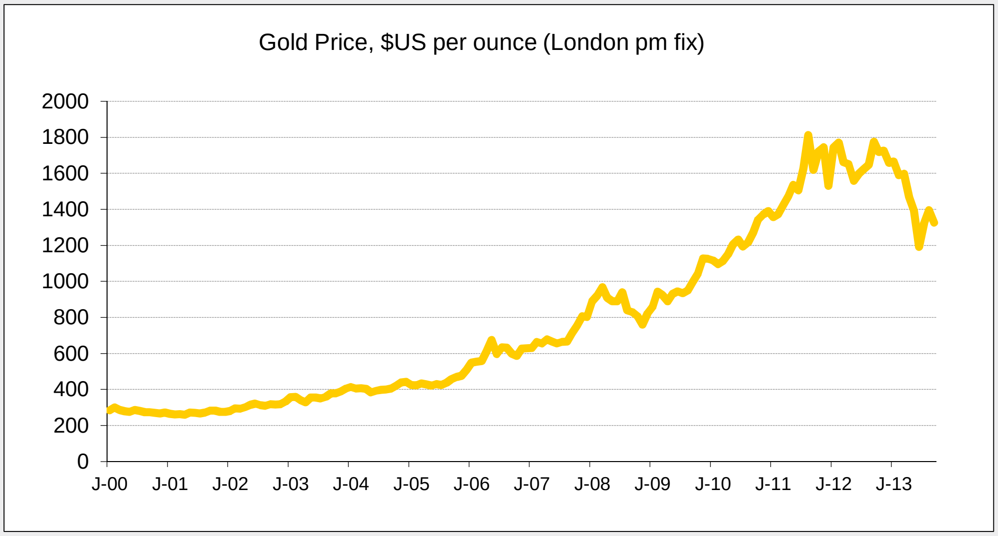


Source: U.S. Treasury, Federal Reserve Bank of St. Louis, Vanguard. The Treasury ceased publication of the 30-year constant maturity series on February 18, 2002 and resumed that series on February 9, 2006. To estimate a 30-year rate during that time frame, the series above includes the Treasury 20-year Constant Maturity rate and an "adjustment factor," which is added to the 20-year rate to estimate a 30-year rate during the period of time in which Treasury did not sell 30-year bonds.

BROAD COMMODITY MARKET RETURNS Returns as of 12/31/2013							
	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
DJ UBS Energy	4.8%	4.4%	5.2%	-7.1%	-7.5%	-8.1%	5.4%
DJ UBS Grains	-3.9%	-5.4%	-16.9%	-5.6%	1.5%	0.3%	-0.3%
DJ UBS Livestock	-2.0%	-1.7%	-3.5%	-3.1%	-3.3%	-4.3%	-2.6%
DJ UBS Precious Metals	-3.7%	-9.8%	-30.8%	-8.4%	7.2%	10.9%	9.5%
DJ UBS Industrial Metals	4.9%	0.3%	-13.6%	-13.0%	6.6%	6.4%	7.5%



Month End:
$92.55



Month End:
$1,204.50

Source: Commodity returns-Morningstar Direct. Oil Prices-St. Louis Fed, U.S. Energy Information Administration, Gold Price-World Gold Council.
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