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Chief Market Strategist

Mr. Carey has over a quarter century of experience as an Equity and Fixed-Income Analyst and is a recipient of the Chartered Financial Analyst (CFA) designation. He is a graduate of the University of Illinois at Champaign-Urbana with a B.S. in Physics. He is also a member of the CFA Society of Chicago and the CFA Institute. As Chief Market Strategist, Bob and his staff supervise approximately \$85 billion in assets. Mr. Carey has appeared throughout the United States and Canada as a guest on television and radio programs. These programs include: Bloomberg TV, CNBC and on Chicago's WBBM Newsradio 780's Noon Business Hour. He has been quoted by several publications, including *The Wall Street Journal*, *The Wall Street Reporter*, *Bloomberg News Service*, and *Registered Rep*.

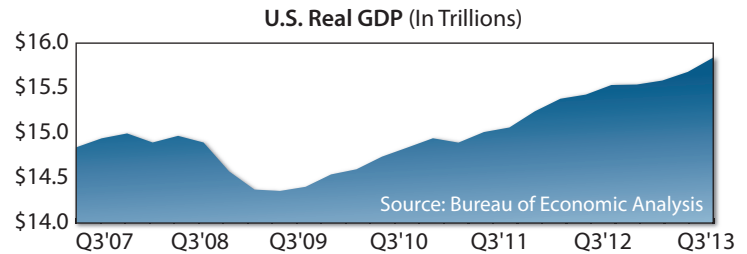
We invite you to visit Bob's Market Commentary Blog at [www.ftportfolios.com](http://www.ftportfolios.com) for more insight.

## Investors Should Tune Out The Noise And Keep Their Eyes On The Prize

An oft-heard criticism of the U.S.'s brand of capitalism is that there is too much emphasis placed on short-term results/gratification. The argument put forth essentially says that too many CEOs, consumers, and even investors, are psychologically levered to what may or may not transpire over the next 1-3 months, as opposed to the next five years. Well, as of the close of 2013, the U.S. economic recovery turned 54 months old, or 4.5 years. Over the past 4.5 years, we have been steadfast in our message to investors that the ("Plow Horse") recovery is not only real, but worth taking a stake in via common stocks. Three major U.S. stock indices (S&P 500, S&P 400 and Russell 2000) all closed 2013 at record highs. From 3/9/09 (market bottom) through 12/31/13, the S&P 500, S&P 400 and Russell 2000 posted cumulative total returns of 202.7%, 256.1% and 262.0%, respectively. With small-capitalization stocks outperforming both mid- and large capitalization stocks, it would appear that the traditional risk/reward relationship is in proper working order. For comparative purposes, the cumulative total return on the BofA Merrill Lynch U.S. Treasury Index was 13.8%. Please take a moment to read through some of the progress that has been made in this recovery.

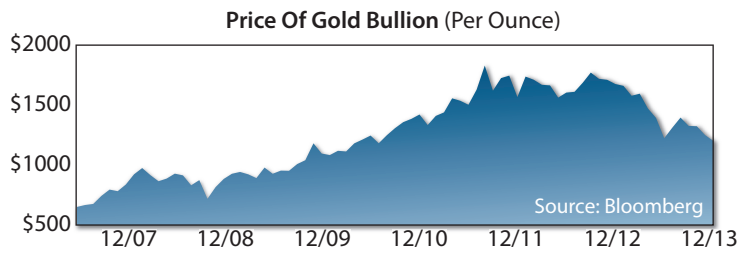
### U.S. economy is better off than the media's take

No one can argue with the fact that too many Americans are unemployed. Companies, however, have become far more efficient and can produce more with less human resources. Technological innovation has made this possible. From Q3'07-Q3'13, which included the financial crisis and recession, nonfarm productivity averaged 1.7%, just below its 10-year average of 1.9%. In Q3'07, U.S. real GDP stood at an annualized \$14.94 trillion. In Q3'13, it was \$15.84 trillion.



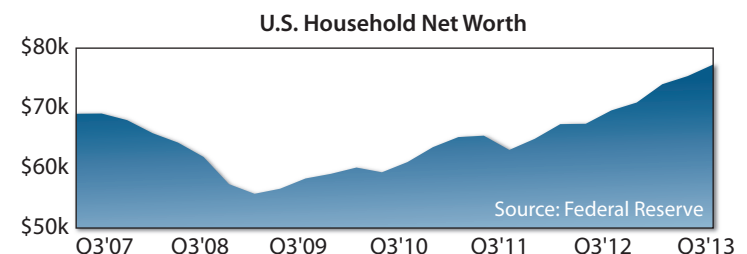
### Drop in gold suggests fear is abating

The price of an ounce of gold bullion peaked at just under \$1,900 per ounce in August 2011. Ironically, that was the same month that Standard & Poor's downgraded the credit rating of the U.S. from AAA to AA+. Since 8/11, the price of gold plunged 36% from the all-time closing high to \$1,202 per ounce on 12/31/13. When you factor in that inflation has been well below the Federal Reserve's 2.0% target of late, and not much of a problem globally, one could deduce that investors have become less fearful of geopolitical influences.



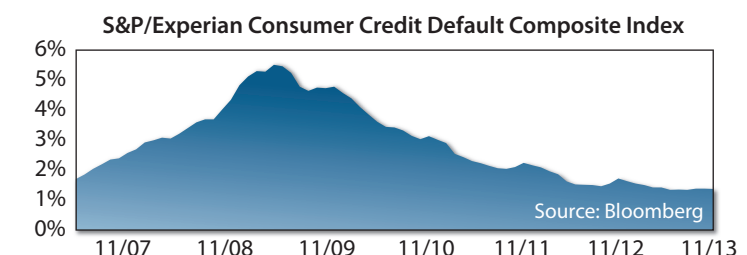
### Housing recovery and bull market boost household net worth

The S&P Case-Shiller Composite-20 Home Price Index (SA) declined 34% peak-to-trough (4/06 to 1/12). Home prices were down 21% from the peak as of 10/13. So housing still has a ways to go to recover. With the S&P 500 closing out 2013 at an all-time high of 1848.36, we know it has fully recovered, and then some. U.S. household net worth stood at \$69.1 trillion in Q3'07. It fell to \$55.7 trillion in Q3'09 following the financial crisis. In Q3'13, it stood at \$77.3 trillion.



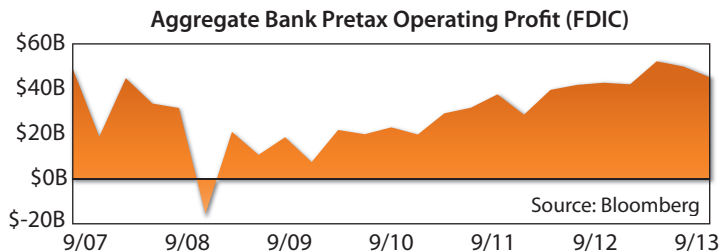
### Consumers have gotten their fiscal houses in order

The peak in the S&P/Experian Consumer Credit Default Composite Index, which tracks payments on first and second mortgages, bank cards and auto loans, occurred in 6/09 at 5.46%. From that point through the start of 11/13, the default rate fell to 1.37%. James Chessen, chief economist at the American Bankers Association, cites the slow but steady improvement in the labor market as one of the key drivers of the deleveraging process. Chessen also believes that consumers deserve credit for changing their mindset towards taking on debt.



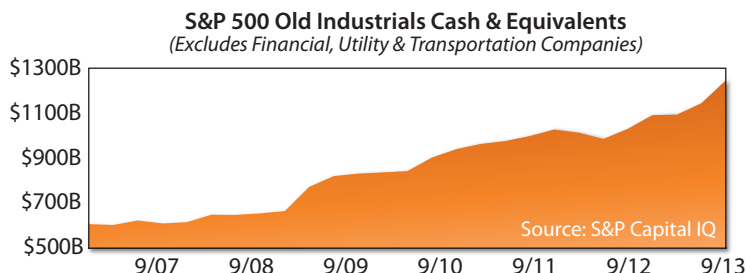
Banks are much healthier

The chart to the right shows that bank profits have rebounded from the financial crisis. Profits in Q3'13 were roughly \$4.0 billion below the \$49.0 billion posted in Q3'07. The slight downturn in Q2'13 and Q3'13 is partly a reflection of the decline in net interest margin (NIM). NIM is the spread between the interest earned from a bank's loan portfolio and the amount of interest the bank pays on its deposits. With the banks on more solid footing, the hope is they will boost lending moving forward. A steepening of the yield curve would actually help.



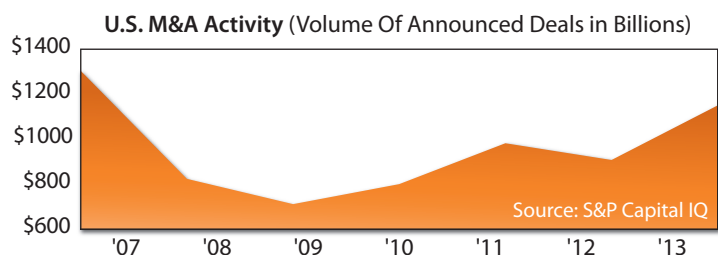
Companies are flush with cash

The S&P 500 Old Industrials companies more than doubled their cash and equivalent holdings from \$606.6 billion in Q1'07 to \$1.25 trillion in Q3'13. These companies even managed to raise their cash holdings during the last recession (12/07-6/09) stemming from the financial crisis: \$609.7 billion (Q4'07) to \$772.7 billion (Q2'09). Cash holdings are up big despite the fact that S&P 500 companies have spent more than a combined \$3.75 trillion on stock buybacks and dividend payouts since Q3'07, according to S&P Dow Jones Indices.



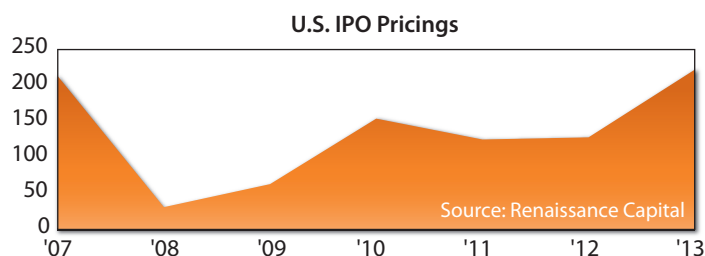
Companies confident enough in the economy to buy other companies

The total value of announced mergers and acquisitions (M&A) in the U.S. hit \$1.15 trillion in 2013, up 26.8% from \$907.4 billion in 2012, according to S&P Capital IQ. It was the strongest showing for M&A since the \$1.30 trillion posted in 2007 and it eclipsed the \$934.0 billion average from 2000 through 2012. The top five deals accounted for 21.5% of the \$1.15 trillion, slightly higher than the 20.1% average from 2000 through 2012.

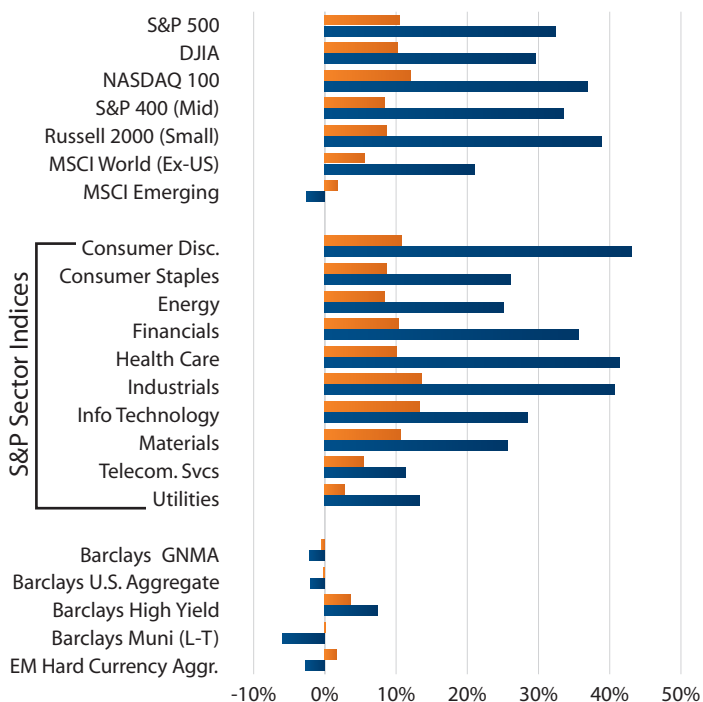


IPO market rejuvenated

The U.S. IPO market was vibrant in 2013 as 222 IPOs were priced, up 73.4% from the 128 launched in 2012, according to Renaissance Capital. The last year in which pricings surpassed 200 was 2007 (213). Companies raised \$54.9 billion from the 222 IPOs, up 29.5% from the \$42.4 billion raised in 2012. The number of IPO filings totaled 256, up 82.9% from the 140 filings registered in 2012. An active IPO market not only allows companies to raise capital, but stimulates activity in other areas of the capital markets, such as venture capital funding.



**Total returns for Q4 and past 12 months (12/31/13)**



**A Look Ahead:**

The outlook for earnings (year-over-year comparison in \$)...

	Q1'14E	Q1'13A	Q2'14E	Q2'13A	2014E	2013E
Financials	5.31	5.21	5.48	5.44	22.00	20.82
Information Technology	9.33	8.20	9.33	7.50	39.99	34.07
Health Care	9.26	8.14	9.64	8.19	38.66	33.20
Consumer Staples	5.84	5.43	6.46	5.78	26.04	23.75
Consumer Discretionary	6.42	5.55	7.28	6.35	29.27	25.23
Industrials	6.12	5.48	6.97	6.25	27.59	24.68
Telecom. Services	2.71	2.10	2.89	2.16	10.93	8.81
Energy	11.87	11.18	12.52	11.49	50.40	44.41
Utilities	3.25	2.54	2.90	2.88	13.27	12.15
Materials	5.10	4.48	5.06	3.14	18.34	14.17
S&P 500 Index	28.48	25.77	29.95	26.36	121.46	107.19
S&P 400 Index (Mid-Cap)	16.20	13.29	18.54	15.00	74.67	60.92
S&P 600 Index (Small-Cap)	7.87	5.81	8.61	6.32	35.16	26.06

Source: Standard & Poor's (1/9/14)