











## The Economy

We spent a lot of time talking about the importance of job creation in 2013. It is still critical at the onset of 2014 with 1.3 million people in the U.S. losing (Congress may or may not vote to extend in Jan.) their unemployment benefits. In December, U.S. payrolls stood about 1.5 million below where they were in 2008, according to Bloomberg. The ratio of U.S. wages to corporate earnings stood at 3.2 in Q2'13, the lowest since 1966, according to the Bureau of Economic Analysis. The historical average is closer to 4.5. While the monthly nonfarm payroll number has averaged around 190,000 over the past 12 months, a recent *Washington Post*-Miller Center poll found that more than 6 in 10 workers are scared of losing their jobs – the highest level since the 1970s.

<b>Consumer Confidence</b> <b>78.1</b> (Dec) 70.4 (Nov) 	<b>Crude Oil (Mo.-End)</b> <b>\$98.42</b> (Dec) \$92.72 (Nov) 	<b>Personal Spending</b> <b>+0.5%</b> (Nov) Oct was +0.3% 	<b>ISM Manufacturing</b> <b>57.0</b> (Dec) 57.3 (Nov) 	<b>ISM Non-Manufacturing</b> <b>53.0</b> (Dec) 53.9 (Nov) 
<b>Gold (Mo.-End)</b> <b>\$1202.30</b> (Dec) \$1250.60 (Nov) 	<b>Natural Gas (Mo.-End)</b> <b>\$4.23</b> (Dec) \$3.95 (Nov) 	<b>Factory Orders</b> <b>+1.8%</b> (Nov) Oct was -0.9% 	<b>New Home Sales</b> <b>464,000</b> (Nov) 444,000 (Oct) 	<b>Existing Home Sales</b> <b>4.90M</b> (Nov) 5.12M (Oct) 

## The Stock Market

Indices (Source: Bloomberg)	Dec	2013	One hundred and eleven out of the 134 subsectors (83%) that comprise the S&P 500 posted a gain in December, up from 99 (74%) last month, according to S&P Dow Jones Indices. Materials was the best performing sector, up 4.80%. In December, the dividend-payers (418) in the S&P 500 (equal weight) posted a total return of 2.80%, vs. 3.36% for the non-payers (82), according to Standard & Poor's. In 2013, the payers were up 40.67%, vs. a gain of 46.27% for the non-payers. In 2013, the number of dividend increases totaled 366, up from 333 in 2012. Twelve dividends were cut, compared to 11 in 2012. The U.S. IPO market was strong in 2013 as 222 IPOs were priced in the U.S., up 73.4% from the 128 launched in 2012, and the highest total in the last 10 years, according to Renaissance Capital. Companies raised \$54.9 billion from the 222 IPOs, up 28.7% from the \$42.7 billion raised in 2012, and the highest total in the last 10 years. A Bloomberg survey (12/26/13) of 21 equity strategists on Wall Street found that the consensus estimate for where the S&P 500 will close 2014 was 1950, according to its own release. The 1950 consensus estimate for the S&P 500 would represent a price gain of 5.50% from its 12/31/13 close (1848.36). The highest and lowest estimates were 2100 and 1750, respectively. The average 2014 EPS estimate for the S&P 500 was \$116.00.
S&P 500	2.5%	32.4%	
DJIA	3.2%	29.6%	
NASDAQ 100	3.0%	36.9%	
S&P 400	3.1%	33.4%	
Russell 2000	2.0%	38.8%	
Russell 3000	2.6%	33.6%	
MSCI World (ex U.S.) (USD)	1.5%	21.0%	
MSCI Emerging Markets (USD)	-1.5%	-2.6%	
Growth/Value (Source: Bloomberg)	Dec	2013	
S&P 500 Growth	2.7%	32.7%	
S&P 500 Value	2.3%	32.0%	
S&P 400 Growth	3.3%	32.7%	
S&P 400 Value	2.9%	34.2%	
Russell 2000 Growth	2.0%	43.3%	
Russell 2000 Value	1.9%	34.5%	

<b>U.S. Dollar Index (DXY)</b> <b>-0.8%</b> (Dec) +0.3% (2013) \$ was down 0.5% in '12 	<b>CBOE Total Equity Options</b> (# of contracts in millions) Dec: <b>35.6</b> (-6.6%)  Nov: 38.1 (-17.2%) Record 7/08: 67.2 million	<b>Short Interest (NYSE)</b> Dec 13: <b>13.8B</b> (-0.8%)  Nov 15: 13.9B (+0.7%) Record 7/08: 18.61 billion shares	<b>VIX Volatility Index (S&amp;P 500)</b> <b>13.72</b> (12/31)  13.70 (11/29) Record 11/20/08: 80.86
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## The Bond Market

Index (Source: Barclays)	Dec	2013	Yield	The yield on the benchmark 10-Year T-Note rose by 28 basis points to 3.03% in December, and was up 127 basis points from a year ago. While municipal bonds had the poorest showing in 2013, the backstory to this group isn't that bad. Data (preliminary) compiled by the Rockefeller Institute shows that total state tax collections rose 6.1% (y-o-y) in Q3'13, the 15th consecutive quarter in which revenues were up, according to its own release. Despite a few high profile municipal bond defaults, such as Detroit's bankruptcy filing, the number of bond issues that defaulted in the S&P Municipal Bond Index actually fell for the third straight year in 2013, according to S&P Dow Jones Indices. The number of defaults in each year were as follows: 2013 (23 issues/0.107% default rate); 2012 (30 issues/0.144% default rate); and 2011 (46 issues/0.227% default rate).
U.S. Treasury: Intermediate	-0.78%	-1.34%	1.15%	
GNMA 30 Year	-0.48%	-2.17%	3.38%	
Municipal Bond (22+)	-0.64%	-6.01%	4.88%	
U.S. Aggregate	-0.57%	-2.02%	2.48%	
Intermediate Corporate	-0.38%	0.08%	2.54%	
U.S. Corporate High Yield	0.54%	7.44%	5.64%	
Global Aggregate	-0.60%	-2.60%	2.11%	
EM Hard Currency Agg.	0.45%	-2.66%	4.96%	

Key Rates as of December 31		Key Yield Spread		2013 Debt Issuance Through November		
				(Source: Thomson Reuters)		
Fed Funds	0-0.25%	The spread between the Merrill Lynch U.S. High Yield Constrained Index and the 10-Yr. T-Note was 336 basis points on 12/31/13, down from 357 on 11/29/13. It was 499 on 12/31/12.		Debt Category	\$ Amount	% change over '12
2-Yr. T-Note	0.38%	(Source: Bloomberg)		Treasury	\$1.87 Trillion	-12.3%
10-Yr. T-Note	3.03%			Corporate	\$1.29 Trillion	+0.2%
30-Yr. Mortgage	4.54%			Convertible	\$32.5 Billion	+83.9%
Bond Buyer 40	5.13%			Asset-Backed	\$180.2 Billion	-4.3%
(Source: Bloomberg)				Municipal	\$302.5 Billion	-13.5%

Equity funds reported net *inflows* totaling \$22.5 billion in 11/13, vs. \$20.7 billion (revised down) of net *inflows* in 10/13, according to the Investment Company Institute. Bond funds reported net *outflows* totaling \$18.1 billion, vs. \$15.6 billion of net *outflows* in 10/13. Money Market fund net *inflows* totaled \$5.3 billion, vs. \$12.1 billion of net *outflows* in 10/13. Year-to-date through November, equity funds reported net *inflows* totaling \$158.8 billion, vs. \$57.9 billion of net *outflows* for bond funds (municipals had net *outflows* totaling \$48.5B) and \$28.7 billion of net *outflows* for MMFs.

Index	10-Yr. High Value	Date	10-Yr. Low Value	Date	Month-End Value	% Off High Value	YTD Return (USD)	Month-End Yield
S&P 500	1848.36	12/31/13	676.53	03/09/09	1848.36	0.00%	32.38%	1.89%
S&P 500 Growth	992.47	12/31/13	363.99	03/09/09	992.47	0.00%	32.75%	1.53%
S&P 500 Value	846.60	12/31/13	307.16	03/09/09	846.60	0.00%	31.97%	2.30%
S&P 400	1342.53	12/31/13	404.62	03/09/09	1342.53	0.00%	33.46%	1.40%
S&P 400 Growth	609.05	12/31/13	174.44	11/20/08	609.05	0.00%	32.68%	0.92%
S&P 400 Value	465.15	12/31/13	144.98	03/09/09	465.15	0.00%	34.25%	1.93%
S&P 100	823.81	12/31/13	322.13	03/09/09	823.81	0.00%	30.40%	2.07%
DJIA	16576.66	12/31/13	6547.05	03/09/09	16576.66	0.00%	29.65%	2.08%
NASDAQ 100	3592.00	12/31/13	1036.51	11/20/08	3592.00	0.00%	36.94%	1.27%
Russell 2000	1163.64	12/31/13	343.26	03/09/09	1163.64	0.00%	38.83%	1.28%
Russell 2000 Growth	688.14	12/31/13	190.73	03/09/09	688.14	0.00%	43.30%	0.64%
Russell 2000 Value	1491.87	12/24/13	469.32	03/09/09	1491.42	-0.03%	34.53%	1.95%
Russell 3000	1108.29	12/31/13	389.61	03/09/09	1108.29	0.00%	33.57%	1.79%
MSCI World x U.S. (USD)	5379.90	10/31/07	2131.84	03/09/09	5156.94	-4.14%	21.02%	3.03%
MSCI Emerging Markets (USD)	473.36	10/29/07	128.72	05/17/04	410.50	-13.28%	-2.60%	2.64%
Bovespa/Brazil (USD)	44638.24	05/19/08	5634.22	05/10/04	21992.83	-50.73%	-26.29%	4.01%
RTS/Russia (USD)	2487.92	05/19/08	498.20	01/23/09	1442.73	-42.01%	-1.14%	1.89%
Bombay SE 500/India (USD)	226.04	01/07/08	39.16	05/17/04	126.67	-43.96%	-6.53%	1.58%
Shanghai Composite/China (USD)	810.24	10/16/07	122.21	07/11/05	349.50	-56.86%	-1.08%	2.99%
KOSPI/South Korea (USD)	2.29	10/31/07	0.62	05/17/04	1.91	-16.87%	2.35%	1.17%
Hang Seng (USD)	4082.25	10/30/07	1406.13	05/17/04	3005.72	-26.37%	6.51%	3.32%
MSCI Euro (USD)	1988.53	10/31/07	680.91	03/09/09	1363.43	-31.44%	29.34%	3.25%
S&P Consumer Discretionary	530.10	12/31/13	125.72	03/09/09	530.10	0.00%	43.08%	1.28%
S&P Consumer Staples	446.03	11/15/13	199.80	03/09/09	442.62	-0.76%	26.14%	2.61%
S&P Energy	668.81	05/20/08	221.64	01/15/04	651.67	-2.56%	25.05%	2.09%
S&P Utilities	223.91	12/10/07	112.86	05/17/04	193.21	-13.71%	13.21%	4.02%
S&P Financials	509.55	02/20/07	81.74	03/06/09	294.71	-42.16%	35.59%	1.62%
S&P Banks	414.38	02/20/07	49.02	03/05/09	209.20	-49.51%	35.72%	2.26%
FTSE NAREIT Equity REITs	676.54	02/07/07	163.57	03/06/09	510.33	-24.57%	2.92%	3.84%
S&P Health Care	642.71	12/30/13	252.84	03/05/09	642.30	-0.06%	41.46%	1.65%
S&P Pharmaceuticals	492.39	11/25/13	214.50	03/03/09	489.39	-0.61%	35.23%	2.66%
NYSE Arca Biotechnology	2352.97	12/26/13	447.78	08/09/04	2330.43	-0.96%	50.80%	0.14%
S&P Information Technology	585.48	12/31/13	198.51	11/20/08	585.48	0.00%	28.43%	1.50%
Philadelphia Semiconductor	560.65	01/12/04	171.32	11/20/08	535.03	-4.57%	41.84%	1.68%
S&P Telecom Services	181.06	05/31/07	88.10	03/09/09	155.52	-14.11%	11.47%	4.67%
S&P Industrials	452.46	12/31/13	132.83	03/09/09	452.46	0.00%	40.64%	1.87%
S&P Materials	291.64	12/31/13	108.33	03/02/09	291.64	0.00%	25.60%	2.24%
Philadelphia Gold & Silver	228.95	04/08/11	64.36	10/27/08	84.15	-63.25%	-48.01%	2.79%
Reuters/Jefferies CRB	473.52	07/02/08	200.34	03/02/09	280.17	-40.83%	-5.03%	N/A
Merrill Lynch Perpetual Preferred	197.97	05/08/13	51.79	03/09/09	183.37	-7.37%	-2.37%	6.07%
Merrill Lynch High Yield Constrained	338.24	12/31/13	130.37	12/12/08	338.24	0.00%	7.41%	6.39%