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Dow Jones Industrial Avg.	**14,909.60**	**Standard and Poor's 500**	**1606.28**
2013(YTD) +13.8%	2nd Qtr. % +2.3%	2013(YTD) +12.6%	2nd Qtr. +2.4%

Keep a Clear Head – "The market is a voting machine, whereon countless individuals register choices which are product partly of reason and partly of emotion." Graham & Dodd

Impressive Start – This summer Cape Cod and the Islands have regained their status as a summer vacation mecca. This region's return as a popular vacation destination has been highlighted by the return of President Obama and his family to Martha's Vineyard. Judging by the crowded highways, restaurants and shops, consumer attitudes have improved enough to finally see them break out their credit and debit cards after several years of self-denial. Both the enduring stock market advance and the rebounding real estate market have undoubtedly contributed to the improved consumer sentiment. If this general willingness to spend extends through the next few quarters, the economy may finally muster enough momentum to break through the two percent growth barrier which has stymied our leaders for the past few years. However success in this small section of New England does not mean the country as a whole is witnessing the same positive results.

Unsettled Weather Pattern – The U.S. economy has been exhibiting some hopeful signs, which suggest the recovery is finally gaining some momentum even though an occasional thunder shower threatens a short disruption. If one is to judge by the stock market's advance this year, there are only blue skies ahead. The most threatening cloud looming overhead is the recent reversal of the 30 year decline in interest rates. This is surely an early sign that stocks will again have some competition from bonds and C.D.s – eventually. Equally disconcerting is the fear this stock market advance will be short circuited by the lackluster recovery. Two serious economic concerns for investors are: "What will drive job growth?" and "Will corporate profitability stall without a resumption of corporate revenue growth?" As may be readily apparent, these two concerns are inextricably linked, yet irrepressible market momentum has kept prices moving higher.

Steady Summer Sunshine - A resumption of corporate revenue growth is heavily reliant on consumer spending, which has been depressed by the consistently high level of unemployment. Since consumers are responsible for 70% of economic activity, it is necessary for the number of employed to increase or the compensation of those who have jobs to increase in order for purchasing power to grow. Lacking these, two recent positive trends have helped to offer some encouragement to consumers by buttressing their balance sheets and net worth. As the economy fell into recession in 2008-2009, consumers were overburdened with debt from a variety of sources including home equity loans; credit card debt; auto loans; and college debt. With dogged determination, consumers have been successful in simultaneously servicing and reducing their debt. If left to its own devices, the economy will slowly, but gradually heal itself. However, it is difficult to imagine the Administration and Congress will be able to resist the temptation to tinker, in spite of their lack of success over the last four years of this tepid recovery.

Last Soldier Standing – It is widely acknowledged only the thoughtful yet controversial actions performed by Chairman Ben Bernanke and his cohorts at the Federal Reserve helped to revive the economy. The FED stepped into the breach and prevented the entire banking system from imploding by providing the banking system unprecedented amounts of liquidity. Through its low interest rate policies, the FED succeeded in sparking a dramatic turnaround in the housing market. As a result, many homeowners who feared the possibility of foreclosure and loss of their homes, no longer find themselves burdened by "underwater" mortgages and once again have some positive equity in their homes. This has given consumer sentiment a much needed lift. A related benefit is every homeowner feels somewhat richer, as home values across the country have improved. The net result is a greater sense of well-being.

In spite of the obvious benefits of the policies, the FED's efforts have drawn heavy criticism as well. One criticism is this overabundance of liquidity will ultimately lead to a resurgence of inflation, another is the challenge the FED will encounter as it attempts an orderly disposition of all the securities it has purchased through its Quantitative Easing initiatives. Before the FED begins selling all it has acquired, it must first begin reducing its monthly $85 billion security purchases, which now total more than **$1.5 trillion!** This anticipated reduction of purchases, referred to "tapering", has caused much handwringing among both FED observers and stock and bond investors. Will a reduced role in the market place by the FED prove to be too disruptive? The jury is still out.

Momentum Sustained? – What do investors have to worry about besides the economy and interest rates? Only Egypt, Syria, Russia and China - oh yes, add on the prospect of hurricane season for good measure. While stocks have generated a healthy double digit gain so far this year, bonds have been much less fruitful. In fact, bonds have struggled over the past several months to the point most fixed income investments are showing negative total returns for the year, which means the decline in principal values exceeds the income earned. Moreover as interest rates continue to rise, principal value will continue to erode. Keep durations and maturities short to lessen the pain.

After such a good run, stocks continue to offer a better value than bonds. However, in light of the strong performance of the stock market in late June through the month of July, greater selectivity in advised. The market advance has pushed price/earnings ratios to above average levels. As companies struggle to generate satisfactory gains in earnings, investors must be aware that the risk/reward balance for stocks is less favorable. Consider using any market rally as an opportunity to cull the portfolio of companies with faltering prospects as well as eliminating smaller sized holdings. Any opportunity to offset gains and losses helps to minimize their tax impact. .

Bonds Bottom Out – Bond investors have seen their incomes dwindle over the past three decades as interest rates slowly, but steadily declined to near zero. At long last, a new dawn is breaking as interest rates once again have begun to move higher. A prime example of this change of direction is the one percent increase in mortgage rates over the past three months. Finally savers, especially retirees, will once again be able to earn something on their savings. To reiterate an earlier warning, holders of long-term bonds and mutual funds owning such bonds will not fare well as interest rates continue to rise. Sales of those holdings are advisable.

Odds and Ends – Each year at this time we are required to provide you a copy of our privacy statement, as are most other financial service organizations. We regard safeguarding the financial information you have shared with us as an integral part of our fiduciary responsibility to you. One piece of information we ask you to share with us, if you have not already is your e-mail address. Having it allows us to communicate more effectively with you either about general events in the financial world or your specific financial situation. Our email addresses are as follows: john@lenkladner.com, geoff@lenkladner.com, carie@lenkladner.com and connie@lenkladner.com. Enjoy the rest of your summer and prepare to welcome Cape Cod's glorious shoulder season. JML