Geoffrey Lenk 508-428-1645

LENK LADNER
Investment Solutions

John Ladner 508-420-1684

MARKET COMMENTARY February 4, 2014

Dow Jones Industrial Avg.	**16,576.70**	**Standard and Poor's 500**	**1848.36**
2013(YTD) +26.5%	4th Qtr. +9.56%	2013(YTD) +29.6%	4th Qtr. +9.92%

Be Prepared – Motto of the Boy Scouts of America(BSA) and **Do a Good Turn Daily** – BSA slogan.

Looking ahead - Investment success requires the insight of the Roman god, Janus, who is portrayed with two faces looking in opposite directions allowing him to observe both the past and the future. Due to the emotional components of investing, fear and greed, investors often find themselves relying too much on what has happened in the past. This is more evident when a market has achieved a peak or a nadir. The former stokes overconfidence as future gains seem certain. Conversely when markets trough, fear leads to despair and despair produces a strong urge to sell. Simply put, an investor must be prepared to look the other way when it is most difficult to do so. Another more effective course of action is to identify the development of these extreme events and take a more defensive stance in anticipation of the turn. Through adequate preparation, an investor can avoid or minimize the pain rather than enduring the full brunt of it.

For example, the stock market had a remarkable year in 2013. It was a year of few setbacks, and the few that did occur were brief and shallow. This encourages risk taking because it suggests the market will continue to advance. Not only has the financial media given considerable attention to the successes of the past year, many "experts" are also projecting double-digit returns for 2014. Given the improvement in the economy over the past six months and the outlook for 2014, they make a credible case for another successful year.

What might investors see if they look back more than a year through the eyes of Janus? They would see that most stocks are, at best, fairly valued. However, valuation metrics are not set in stone. Since value is subjective, it becomes yet another example of "beauty is in the eye of the beholder." If there is no standard, there are no limits to what prices can be attained. Current examples of possible extremes are evident among social media and biotech stocks. They sell for prices far exceeding traditional measures such as price-to-earnings or price-to-earnings growth. As bull markets gather momentum, such excesses become more commonplace, and investors who are attracted to high-flying momentum stocks end up making ill-advised purchases. Their only hope is a bigger fool buys their shares and they are fortunate enough to exit before the price collapses. In addition to observing the past and the future, Janus must ponder valuations and momentum, which requires him to understand fundamental and technical analysis. He must always be prepared to examine both sides of the coin.

Economy Picking Up Steam – Providing support for continued stock market strength in 2014 is the improving economy. After a sub-par start to 2013, economic activity improved considerably in the second half of the year, as evidenced by the growth of 4.1% and 3.2% in the third and fourth quarters respectively. The fourth quarter result was better than expected given all the headlines trumpeting weak retail sales. Now it is important the positive trend continues in this quarter and the next. Potential obstacles to a further advance include: diminishing growth in corporate revenues and earnings; increasing turmoil in foreign markets, especially several emerging market countries; market impact stemming from increased tapering by the Federal Reserve (FED.); and political posturing as the mid-term elections draw near. January's disappointing results indicate investors have doubts about the sustainability of last year's advance and are anxious to secure some of their profits.

Review Objectives – When markets turn sour, investors can lose sight of their long-term goals and objectives. The natural reaction to the fear generated by a dramatic decline is flight - sell all before it vanishes. A wiser course of action is to start evaluating positions for possible sale when the market begins to appear frothy. A good way to judge this is when the most common topic of conversation is how well the stock market is performing or when everyone seems to mention a favorite stock. On the other hand, when doom and gloom is the order of the day, a wise investor should be creating a “buy” list. By employing this contrary approach, investors can reduce the likelihood of making a rash, emotional response at an inopportune time. Many experienced investors employ technical analysis as a tool to assure they avoid these same pitfalls. Returning to the wisdom of Janus, a successful investor will rely on historical results as well as future projections. Neither approach matters unless action follows, so as Boy Scouts say, “Be Prepared.”

These comments were originally intended to alert readers to stock prices that seemed to be exceeding levels warranted by the fundamentals. Of particular concern was the big surge in prices at year end. As is evident from the stock market results for the first five weeks of 2014, some defensive action was justified. Now the pendulum has swung in the opposite direction as stock prices have quickly retreated from the record levels attained at year end. When such indiscriminate selling occurs, value is created and purchase candidates begin to surface. To quote Warren Buffett, “Be greedy when others are fearful.” Now is a more reasonable time to resume searching for companies that offer “growth at a reasonable price” (G.A.R.P.), although stocks offering an above-average dividend stream remain scarce.

In order to have a chance to earn a decent return on their savings, savers are being forced to become investors, yet as the stock market has demonstrated since the first of the year, returns are not guaranteed. The ironic twist is this penalty placed on savers was manufactured by the government to allow the country to recover from the Great Recession. Banking and finance have recovered; housing and construction are recovering; and the automotive industry has recovered. For those whose budget requires a return greater than one-half of one percent, a well diversified portfolio of bonds, mutual funds, exchange traded funds, and stocks can generate a return of 2½ -3% as long as an investor can tolerate some volatility. Consider the dividend return for these well-known, household names: Chevron (3.6%), Duke Power (4.4%), GE (3.6%), Intel (3.7%), Microsoft (3.0), Southern Company (4.9), and Verizon (4.6%). These represent possibilities, not recommendations. Placing some funds at risk can greatly increase the flow of income. It is something to consider.

Returns in the fixed income markets remain miniscule, particularly for shorter maturities. More seasoned bond investors (like me), who can recall yields ranging from four, six, eight percent and higher, find it humorous when financial institutions try to excite us with yields as high as ONE percent. Some seniors can remember being able to rely on the income generated by their certificates of deposit. No longer. Now to earn a sufficient return investors must be prepared to accept more risk. Risk in the fixed income arena involves a willingness to accept longer maturities or lower quality in order to generate a higher rate of interest. Other more risky methods can be employed as well, such as leverage and derivatives, but they should be left to those with more experience. At this point in time, it is best to favor good quality and short-to-intermediate maturities either through direct purchase or through funds. Neither approach will provide returns above 2-3%. At the present time, bond investments will only provide some degree of stability and modest income. Interest rates have been so low for so long, any increase in interest rates will adversely impact longer-term holdings.

Around the Office – Each year at this time we offer you an updated copy of our Form ADV, Part 2, which we file with the Securities and Exchange Commission. For those of you looking forward to paying your taxes or receiving your refund, Schwab has indicated they will be sending out the necessary tax information by the middle of February. Once you receive it, please contact us if you feel you are missing any information. In a similar vein, we are in the process of providing tax guides again this year. If you have any family or friends who wish a copy simply have them contact us and we will send them a copy. Now is also a good time to arrange for a review of your account and plan for the year ahead.

If anyone has a direct connection with the snow gods, feel free to let them know I have cried “Uncle” on more than one occasion. If that doesn’t work at least there is some solace in knowing there are only 44 days left of winter. Did I say “Only ..?” JML 2/4/14