Randall Financial Group, LLC
Market Commentary

1st Quarter 2014

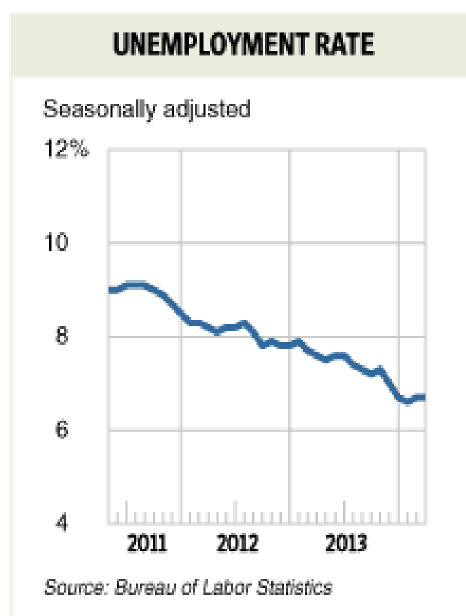
After a stellar 2013 for stocks, things got off to a bit of a bumpy start for January of 2014. Most equity markets saw declines in January followed by recovery in February and March. In the end, domestic markets managed to post gains while international markets struggled to keep pace. Even though the bellwether 30-stock Dow Jones industrial average was down 0.72% for the quarter, the broader S&P500 saw a gain of 1.81%. Mid and small cap stocks also did well. The S&P Small Cap 600 gained 1.13% and the S&P Mid Cap 400 was up a healthy 3.04% for the quarter. Once again domestic equities were the place to be. International markets had a harder time of it. The developed MSCI EAFE index managed a gain of 0.66%. But emerging markets continued to struggle. The MSCI Emerging Markets finished down 0.43% after being down nearly 8.5% by the end of January.

Index	YTD% 2014
Dow Jones Industrials	-0.72
S&P 500 index	1.81
NASDAQ Composite	0.54
Russell 2000	1.12
MSCI EAFE	0.66
Barclays Agg Bond	1.84
NYMEX Crude	3.66
COMEX Gold	6.66

One change of theme in the first quarter was the strength of fixed income securities. The Barclays Agg Bond index, which was in the red for 2013, gained 1.84% in the first quarter and the Bank of America High Yield Master II showed high yield bonds gaining 3.0% for the quarter. Other bond sectors like municipals also demonstrated strength. In that sense, the first quarter was somewhat of a return to asset allocation being in favor over strictly domestic stocks.

First quarter market performance has been dominated principally by two themes. The first was weather. Here in the U.S., record cold and snow in much of the country reduced consumer demand and drove up inventories for manufacturers. We also saw some disappointing economic news as a result, including weak home sales and slowing job growth. We've talked here before of the significance of consumer buying on our overall economy and a winter like we've had will certainly slow things down. Fortunately, the weather will break (none too soon for many of us) and most observers expect these categories to strengthen. The general consensus seems to be that the U.S. remains in a slow growth, mature recovery and will remain here for some time.

Internationally, the primary story has been the revolt in Ukraine and the subsequent annexation of Crimea by the Russia. These developments have added a cold war flavor to world affairs and helped push emerging market economies in Eastern Europe lower. Russia (a key emerging market) is very volatile and Russia is also a primary source of oil and natural gas to Western Europe, which could have an economic impact on Eurozone countries. But the slowdown in emerging markets is not limited to Eastern Europe. Slowing growth in China and India, two far bigger economies, are also being felt. It is worth reminding readers that emerging markets are among the most volatile asset classes and these swings should come as no surprise to informed investors.



One theme from last year that seems to have temporarily resolved itself is Federal Reserve action on interest rates. Fed comments indicate that they believe the economy continues to recover. As such, they've continued to reduce their quantitative easing supports. But they've indicated they don't anticipate hikes to the Fed Funds rate until 2015. They seem to have done a good job telegraphing their moves early. As a result, markets appear to have mostly priced in their actions.

In closing, it's worth remembering that our current bull market, which began in March of 2009, has reached the 5 year mark. Only two bulls have run for 6 years or more. That does not mean our world will come crashing down. And there is no immediate sign on the horizon that things will turn south. But it is a reminder that a correction of some kind is increasingly possible. We will keep you informed as events develop.

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