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MARKET COMMENTARY

The government shutdown in October didn't disrupt the stock market rally. US stocks finished the year strong. Year-to-date, the S&P 500 has gained 32.4% and the DJIA has gained 29.6%. Small cap stocks weren't as strong as their larger counterparts during the fourth quarter but for the year are up 38.8%. Internationally, the developed world markets have also had good performance with a gain of 19.4%. Emerging markets, suffering from slower growth in their developing economies, posted negative returns this year of -5.0%.

US GDP growth started to improve in the second quarter with growth of 2.5%. In the third quarter, GDP grew at 4.1%, its fastest pace in two years! Inventory buildup was responsible for about 40% of the growth so if consumers don't spend, then higher inventories could be a drag on growth in the future. Consumer spending was strong during the period, but much of the increase was due to higher outlays on gas and healthcare. Gas prices have since come down increasing the amount available in consumers' pockets for discretionary spending in the fourth quarter. Economists are hopeful that the momentum in consumer spending will continue to build in 2014. Although the government shutdown may result in a little slower GDP growth in 4th quarter, economists are estimating growth of 2.5% to 3.5% for 2014.

If those growth rates are realized, unemployment could see real improvement. The unemployment rate has been declining but part-time jobs have been increasing at the expense of full-time positions. The labor participation rate is still at lows resulting in less people working. If GDP growth can reach 3%, we could see higher-quality job growth which could further support the economy.

Higher GDP growth also helps corporate profits grow which is necessary for continued stock price gains. Profit margins are at high levels which means that expenses have been cut and further growth needs to be fueled by sales growth which in turn is fueled by economic growth. Stocks prices have risen this past year through profit growth and through price/earnings multiple expansion. Now that PEs are in line with 10-year averages, further stock advances should be mostly based on earnings growth in order for stocks not to be considered overvalued.

Stronger economic growth also influenced the Federal Reserve's decision to begin tapering their new bond purchases. Beginning in January, the Fed will reduce their new bond purchases from $85 billion to $75 billion. Expectations are that the Fed will continue to reduce new purchases each month, ending all new purchases by the end of 2014. Investors have feared this move in the past as stock prices fell and yields rose in June when the Fed first discussed tapering. In December when they announced the decision to begin tapering, investors applauded the decision believing that the economy was strong enough to survive and the DJIA jumped nearly 300 points in one day.

Yields on the 10-year Treasury continued to rise this quarter and ended the year at 3.0%. Once again, the interest earned on bonds was not enough to offset the decline in bond prices. The Barclays Aggregate Bond Index was down -0.1% for the quarter and -2.0% for the year. Analysts expect the 10-year yield to continue to rise in 2014 and 2015 but at a slower pace. Goldman Sachs expects the yield to reach 3.75% in 2015 while JPMorgan expects yields to reach 4% in 18 months.

An allocation to bonds is still appropriate to provide safety when stocks are volatile. Bond portfolios may benefit from adding exposure to high yield, convertibles, and floating rate securities to help protect against further depreciation or as a yield enhancement. Likewise, investment in real assets like real estate, gold, and other commodities can also reduce portfolio volatility long term even if they do not outperform other asset classes. We continue to believe diversification is a prudent strategy and can help reduce risk and smooth out total returns over the long term.

2013 BENCHMARK RATES OF RETURN

INDEX	FOURTH QUARTER	YTD
S&P 500	10.5%	32.4%
DJIA	10.1%	29.6%
NASDAQ	10.7%	38.3%
Russell 2000	8.7%	38.8%
International	5.4%	19.4%
Fixed Income	-0.1%	-2.0%

We value our relationship with you, and we are always available to meet with you in person or by phone. Please do not hesitate to call or email us with any questions that you may have.

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FINANCIAL PLANNING

New Year's Resolution

When stock prices fell during 2008 and early 2009, many people preferred not to look at their investment statements during that time. They took the "ostrich approach" and buried their heads in the sand so they wouldn't see what they didn't want to see. While this strategy ended up working out okay because it kept people from making decisions based on emotion, now may be an ideal time for people to revisit their financial plans and see if it would be beneficial to make any changes.

Just as some people dread going to the doctor and hearing that they need to lose weight or exercise more, some people dread going to their financial advisor because they are afraid of what they might hear. Some may even discover they are in better shape than they imagined and only minor changes or no changes at all are needed.

However, even if you are not in that situation, the sooner any issues are known, the sooner corrective actions can be taken. Finding out early that you need to save a little more or spend a little less in order to retire at your target age is much easier to accomplish rather than waiting too long and seeing that you need to save a lot more or spend a lot less.

The strong stock performance during the recovery from the Great Recession and especially this past year in 2013 may not be seen again in the near future. For some, this strong performance may have masked the negative effect of taking distributions from their investment account. A return to more normal performance may result in declining account balances if distributions stay at the same level. If assets levels are high enough, this may not be a problem, but for others whose distributions are high as a percentage of their balance, they could see their accounts decline much faster than they did the past several years. A good economy and a strong stock market are still no match for withdrawing too much from accounts.

We recommend that if you haven't met with your advisor in the past year, you make it a New Year's resolution to set up a meeting to review your situation. It doesn't have to be painful. Many times, just knowing that you are taking steps to reach your goals can be empowering and restore your confidence and determination. We are here to help you. The resolution of making sure you are doing the right things to meet your financial goals is easier to do when you are not alone so give us a call and let's get started.

QUESTION: *What should I do with all the class action lawsuits that I receive in the mail regarding stocks I own?*

ANSWER: Over the past decade, there has been an abundance of class action lawsuits filed by law firms on behalf of shareholders. Mailboxes are full of solicitations to join the lawsuits, but the paperwork can be confusing and cumbersome for shareholders and the payoff can be small.

Cambridge Advisors is pleased to announce the launch of our new securities class actions service. We have partnered with Broadridge Financial and they will begin filing the class action settlement claims automatically on your behalf for cases in which you are eligible to participate. You don't have to do anything with the solicitations you receive. Broadridge will complete all paperwork and track and monitor any claims you are eligible to receive. Upon court approval of the distribution of the settlement funds, you will receive a check for your share of the proceeds. Broadridge will retain 20% of what is recovered in order to provide these services. Because they are experts in this, paperwork will be filled out correctly and in a timely manner and they will also be searching out class action lawsuits for which you are eligible—not just the ones that you receive mailings on.

We believe this service will improve the recovery rates for clients and remove the hassle for you. If you would like to opt out, you may, and no claims will be filed on your behalf. Please let us know by January 31 if you do not wish to participate in this service.

2014 Retirement Contribution Limits

Retirement Plans	2013	2014
401k and 403b Plans	$17,500	$17,500
Catch up contributions*	$ 5,500	$ 5,500
IRAs		
Traditional or Roth IRA	$ 5,500	$ 5,500
Catch up contributions*	$ 1,000	$ 1,000
SIMPLE IRA	$12,000	$12,000
Catch up contributions*	$ 2,500	$ 2,500

*If you are age 50 or older, you can make additional catch up contributions

CAMBRIDGE ADVISORS NEWS

We like to take this opportunity to wish all of you a happy and prosperous new year! If you have family or friends who need help with their financial New Year's Resolution, we would like to help them. We always have openings for the people who are important to our clients and there is never a fee for an initial discovery meeting to see if our services would benefit them.