2nd Quarter 2013 Performance Review

Dear Client:

The second quarter wrapped up a rollercoaster ride with a positive gain last week. Thanks to a few weeks of FOMC-induced turmoil, the markets gave back a large portion of the strong equity returns enjoyed for the majority of the quarter. While there were times during the quarter when the S&P was up as much as 6%, the index finished the quarter only up 2.36%. For the year to date, returns remain respectable with the S&P up 12.63%.

Meanwhile, as fixed income traders over reacted to Chairman Bernanke's comments on May 22nd, resulting in the 10 year Treasury reaching 2.6%, the Barclays Aggregate Bond index sank 3.18% for the quarter. This was the worst quarterly return since Q2 2004, and just the third loss of more than 2% in the past 20 years. This change in rates also had a significant impact on Domestic and International REIT indices which fell 2.2% and 7.2% respectively for the quarter.

Index	Index Close	Q2 Price Return (%)	YTD Price Return (%)
S&P 500	1,606.28	2.36%	12.63%
DJIA	14,909.60	2.27%	13.78%
NASDAQ	3,403.25	4.15%	12.71%
Barclays Aggregate Bond	107.21	-3.18%	-3.48%
MSCI EAFE	57.30	-2.85%	0.77%
MSCI Emerging Markets	38.50	-9.98%	-13.19%

With continued stress in the Eurozone and negative news out of Japan, markets reacted negatively resulting in a -2.85% return for the MSCI EAFE. This theme unfortunately extended into the emerging markets as negative news, specifically out of China and Brazil, brought the index down for the quarter by -9.98%.

Times of transition can be difficult, and despite the efforts of the Federal Reserve, this period is no different. In the years since the financial crisis of 2008, investors have only known one side of monetary policy—quantitative easing (QE). This prolonged stimulus resulted in record low interest rates, record highs for gold, and led equity investors to embrace the "Don't fight the Fed" mantra. But we knew this couldn't last forever, nor should we want it to. An economy that relies on a central bank purchasing $85 billion worth of fixed income assets (per month), while artificially lowering interest rates , is not one that is sustainable for the long run. Investors and markets are adjusting to a new paradigm; one where the Fed, while not slamming on the brakes, is easing off the accelerator.

In short, the investing mindset is adjusting to a long, slow, but inevitable return to a more normal monetary policy environment. The end of "financial repression" (negative real interest rates) and the market's reliance on the government/Fed is a good thing, but the journey will bring bouts of volatility. This reinforces our belief that investors need to have a long-term, diversified plan in mind and the discipline that goes along with it.

We look forward to speaking to you over the coming quarter and are here if you need us for anything!

Enjoy your summer!

Sincerely,

Locust Capital Management