# 3rd Quarter 2013 Performance Review

The third quarter limped across the finish line on September 30th. Investors were distracted and burdened throughout the summer over speculation regarding the Federal Reserve's stance on winding down (or "tapering") its Quantitative Easing policy, the potential for direct American involvement in Syria as well as the outcome of the German national elections for Chancellor. More recently, the markets' main focus has been on the US government shutdown and the potential default on US Treasury interest payments in late October. For many, the bi-partisan posturing and unwillingness to compromise in Washington is extremely frustrating and exasperating.

All in all, however, year-to-date equity returns remain robust and the bond market, challenged for most of the 3rd quarter, benefited in September from the decision by the Federal Reserve to continue its Quantitative Easing program of monthly bond purchases of $85 billion. US 10-yr Treasury bond yields concluded the quarter at 2.62% and the Barclays Aggregate Bond index also rebounded from intra-quarter losses to essentially breakeven for the three month period.

As you see from the chart below, markets in the US and abroad (developed and emerging) showed respectable returns for the quarter:

| Index | Index Close | Q3 Price Return (%) | YTD Price Return (%) |
|---|---|---|---|
| S&P 500 | 1,681.55 | 4.69% | 17.91% |
| DJIA | 15,129.67 | 1.48% | 15.46% |
| NASDAQ | 3,771.48 | 10.82% | 24.90% |
| Barclays Aggregate Bond | 107.20 | -0.01% | -3.49% |
| MSCI EAFE | 63.80 | 11.34% | 12.21% |
| MSCI Emerging Markets | 40.76 | 5.87% | -8.09% |

Unfortunately, equity markets sold off in the last week of the quarter as anxious investors continued to shed risk in anticipation of the lack of progress by Congress to agree on a budget resolution to stave off the first government shutdown in 17 years. Treasury Secretary Jack Lew has publicly stated that the department can survive until October 17th, but thereafter would be at risk of default.

It should be noted that while there has been a strong recovery in the emerging markets this quarter, the outlook remains challenging. This is due in part to the negative impact that merely the suggestion of a rising interest rate environment in the US has on the ability of emerging economies to raise capital as they compete with the US and other well-developed economies.

As we enter the final quarter of this year, we remain cautiously optimistic as all of the leading, lagging and coincidental indicators of the US economy that we monitor show positive trends.

Enjoy the foliage!

Sincerely,

Locust Capital Management