HALBERT HARGROVE

Market Commentary – 4th Quarter 2013

Equity markets finished the 4th quarter strongly, making 2013 a remarkable year for U.S. equities and, to a lesser degree, global equities as a whole. Emerging markets were the exception; these markets finished the year in slightly negative territory. The commodities and fixed income asset classes broadly lagged relative to most equity markets. It was a year in which diversified portfolios experienced great return dispersions across asset classes.

U.S. Equity

U.S. equities led the field in 2013. Achieving returns over 30% was a welcome surprise. Coming into the year, there had been tremendous uncertainty regarding the "fiscal cliff," the expired Bush-era tax cuts and across-the-board spending cuts that went into effect on December 31, 2012. As the year unfolded, the U.S. experienced a budget sequestration, Fed taper discussions, bi-partisan bickering, and a government shutdown. With all of this government-led negativity it is surprising that U.S. equity markets were down no more than 6% at any time during the year. Small cap stocks, in a reversal of 2012, turned in even stronger results than large caps. We continue to maintain a defensive posture in our equity holdings. This stance should provide continued protection against potential increases in volatility, yet still allow us to participate in the majority of the market's upside.

International Equity

During 2013 we saw massive stimulus from the Bank of Japan. We also saw the Eurozone exit its 18-month long recession. While international equities made up ground on US equities during the 3rd quarter, they simply couldn't keep pace during the final quarter of the year. Developed international markets returned almost 20% for the year - (extremely strong results historically). International small cap equities and global equities (helped by the inclusion of U.S. equities in this asset class) generated even higher returns in 2013. Emerging markets had positive results for the 4th quarter, yet still had a difficult 2013 with full-year results in the red. The silver lining in emerging markets results is that the significant returns of other equity asset classes provided a strong counterbalance in diversified portfolios - and good opportunities to rebalance portfolios into emerging markets at attractive prices.

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Commodoties

2013 marked the third consecutive year of negative returns for this asset class (as measured by the Dow Jones UBS Commodities Index). As a result of economic uncertainty throughout the year, commodity markets struggled, especially within many of the emerging market economies. Fourth quarter results were slightly negative after a 3rd quarter rebound. As inflation risk remains a concern, reducing exposure to commodities doesn't seem prudent at this time.

Fixed Income

While fixed income as an asset class had negative results in calendar 2013, our stance in maintaining lower duration relative to the broad benchmarks was helped results. Our exposure to high yield instruments also helped, as yield spreads compressed and defaults remained very low. Fed tapering discussions kept bonds under pressure during the middle of the year. However, many bond sectors – emerging markets being a primary exception – rebounded as 2013 came to a close.

As we head into 2014, we don't anticipate making any major changes to our portfolios. Uncertainty regarding global economic strength, along with equity market valuations, rising interest rates, and political squabbling, all continue to warrant maintaining broadly diversified portfolios. We will continue to explore investment options that can reduce the expenses in our US and International equity positions. We are also looking at areas, such as microcap and international small cap, where active management can add value to investment results.