Mimosa Investment Management

1st Quarter 2014

2013 - Quite A Year!

The past year was quite remarkable in the performance of equity markets. With the US and Japan leading the way, it was the best performance in the last ten years. Bonds did not fare well, as the Federal Reserve began to reduce QE3, its massive bond buying program in December. As Table #1 below illustrates, stocks were the investment of choice in 2013.

Table #1

Index	**2013 Total Return**
Dow Jones Industrial Average	29.7%
S&P 500	32.4%
FTSE All World	23.3%
Barclays Intermediate Gov't Credit	-0.9%
Barclays Municipal Bond	-2.6%

The Next Twelve Months

As we begin the new year, there are some positive factors in place that give us reasons for optimism. Despite a leadership change from Ben Bernake to Janet Yellen, the Federal Reserve will continue its accommodative policies throughout 2014. Although the Fed began to reduce its monthly bond purchases under QE3 from $85 billion per month to $75 billion per month in December, it also promised to maintain the fed funds rate at 0% to 0.25% for the foreseeable future. As recent employment numbers suggest modest growth, there is ample room for the continuation of policies to increase employment and GDP.

A second positive factor is the growth of oil and natural gas development in the US. The cheap development of both natural resources means that more of our energy dollars will stay in the US, rather than being shipped to the Middle East. In addition, the advent of cheaper natural gas has helped make US manufacturing much more competitive on a global scale. Finally, lower gas prices at the pump mean consumers have more discretionary income to spend. All of these create jobs and fuel growth in the US economy.

A positive third factor is the relative attractiveness of equities to other investment alternatives. Although interest rates have increased, yields on 10 year US Treasury bonds are still less than 3%. The dividend yield on the S&P 500 is almost 2% and dividends are being increased steadily. Money market yields are near zero and CD yields are certainly not very attractive. More funds will continue to be allocated to stocks.

Current Context for Investing

While 2013 was a stellar year, Table #2 shows the performance of stocks and bonds over the past 10 years.

Table #2

Percent Return Per Period

Time Period			S&P 500	FTSE All World Index	Barclays Intermediate Govt Credit
12-31-2003	to	12-31-2004	10.87	16.14	3.04
12-31-2004	to	12-31-2005	4.89	11.72	1.58
12-31-2005	to	12-31-2006	15.79	22.19	3.67
12-31-2006	to	12-31-2007	5.50	12.74	6.77
12-31-2007	to	12-31-2008	-37.00	-41.76	5.10
12-31-2008	to	12-31-2009	26.45	36.18	5.24
12-31-2009	to	12-31-2010	15.07	13.18	5.67
12-31-2010	to	12-31-2011	2.11	-7.26	5.80
12-31-2011	to	12-31-2012	15.98	17.13	3.90
12-31-2012	to	12-31-2013	32.41	23.30	-0.86
Date to Date					
12-31-2003	to	12-31-2013	104.20	114.89	47.55
Annualized			7.40	7.95	3.97

The relatively spectacular performance of stocks over the last two years, along with the modest pullback in bonds, has simply returned asset classes to a more normalized return pattern for the last 10 years. While valuations may be a bit high in the US with the PE ratio of the S&P 500 at around 17, it's no where near the 30PE peak of March 2000. We believe US multinationals and foreign equities are poised to continue to do well in 2014 and beyond. The ride will almost certainly be a bit bumpier, but in the end it should continue to be rewarding.