

Leigh Baldwin & Co.

Investment Brokerage

It's the End of the World as We Know It

In September, 2011, after 30 years together, the American rock band R.E.M. finally called it quits. As one of the first popular alternative rock bands, R.E.M. combined a lyrical "coolness" with a recollection of the music of the 1960's and the band sold over 70 million records. Yet after thirty years, they separated and went their own ways. The bond market, beginning in 1982, also has had a thirty plus year legacy of success. As interest rates slowly and methodically fell from almost 20% to close to zero, the bond market rally has been a huge boost for portfolios, as a buffer for weak markets and as a generator of income.

Unfortunately, after thirty years, the stock market and the bond market appear to have separated and gone their own ways.

Let's witness the first three quarters of 2013. After four years of money flowing from stocks to bonds, the flow has stopped. Money goes where it is treated best, and right now that is in common stocks from the US. Stocks are up 20% across most major averages, with the Russell 2000 showing gains of almost 27%. If the stock market were to finish the year today, it would be a better year than 12 of the previous 14 years. The 5.2% gain in January is the best month since the middle of 2011 and the 720 calendar days without a 10% correction is the 5th longest streak in history. In contrast, bonds are negative for the year and after a thirty year tour as the perfect complement to stocks, the investment business just got more difficult.

We believe that although expected return assumptions may be different, sometimes dramatically, going forward, there are ways to complement your stock and equity mutual fund holdings with fixed income and alternative ideas to help you achieve your goals. It is important to review your current holdings and examine what, if anything should be changed in this new world order. The continuing flow of bond interest coupons will help, but we recommend taking an honest look at your investments, especially while enjoying the new heights that stocks are taking us to. Even the great bands, like R.E.M., can eventually go it alone, much to the dismay of their fans, but with the right planning and the right expectations, we can continue to be "Shiny Happy People" for the years to come. As always, we appreciate your confidence in our firm and we look forward to meeting with you personally in the days ahead.

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