

Leigh Baldwin & Co.

Investment Brokerage

History Worth Repeating

Happy 2014 to everyone! The US stock markets gave investors something to be happy about last year as they soared about 30% higher across the board. Led by the NASDAQ (+38.3%), stock exchanges had their best year since 1997 (S&P +33.4%), as money flowed from the Treasury, from bond funds, from international shares, and from about any place it could, into US stocks. If history is our guide, then 2014 could shape up to be another banner year, as 1998 followed the huge gains of 1997 with a 28.6% S&P gain of its own. We certainly believe there will be opportunities in stocks next year, but we remain committed to a diversified approach to investing. As J. Paul Getty once remarked, "Money is like manure. You have to spread it around or it smells".

Diversification actually hurt investors last year, as the bond market was hit with the double whammy of higher interest rates (1.6% to 3.25, doesn't sound like much, but it is huge percentage wise) and a mass exodus to stocks for the first time in years. Emerging markets performed poorly in 2013, as did commodities, particularly as gold fell for the first time in 12 years, having one of its worst years in history. Finally, international markets were mixed and cash offered no benefit for the 5th straight year.

One year does not make an investment plan or strategy though, and we believe that a well-constructed, risk managed portfolio is still the proper course for the years to come. We would love to have market returns again this year like last, but we should also keep in mind a quote from Warren Buffett, "If past history was all there was to the game, the richest people would be librarians." So here are some thoughts on assets for the year(s) to come...

Stocks

Stocks have become the only game in town, versus the record low returns and record high risk in bonds, and there are still values to be found. We are looking at specific growth ideas coming out of recent new issues along with fundamentally strong dividend stocks.

Bonds

We are very interested in the municipal bond market, especially after the dramatic losses taken in some tax-free funds, amidst the headlines about Detroit and Puerto Rico, and the huge liquidation of bonds. Individual CD's and UIT's can help lesson the risk in your portfolio during times of higher interest rates. ETF funds trading at a discount are also on our radar.

Commodities/Alternative Investments

Basic material stocks shot back to life late in the year and may be interesting this year. Gold will need at least a whiff of inflation to climb higher and oil may have peaked for the short term, as the US commits to exciting new supplies based on new drilling technology and the move to natural gas.

Once again, and worth repeating, we appreciate your business and your confidence in our firm. We look forward to serving you during a healthy and prosperous 2014!

112 Albany Street
Cazenovia, New York 13035
315-655-2964, 315-655-9138 fax
leigh@leighbaldwin.com

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