



# Q1

Quarterly Market Review  
First Quarter 2014

# Commentary

First Quarter 2014



## **Global Market Performance**

After a robust 2013, U.S. equities fell in January before rising again in February and March – eking out small gains for the first quarter of 2014. Large-cap equities outperformed small caps with the S&P 500 up 1.8% and the Russell 2000 up 1.1% for the quarter. Foreign developed equities continued to outpace Emerging Markets, as European economic growth improved. Slowing economic growth concerns continued for Emerging Markets, particularly China, while the Ukraine and Russia experienced geopolitical turmoil. REITs and Gold rebounded from a challenging 2013 and outperformed global equities during the quarter. Fixed Income assets, as measured by the Barclays U.S. Aggregate Index, also reversed the negative trends of 2013 in the first quarter, as the 10-Year Treasury yield declined 32 basis points.

## **Expectations for Federal Funds Rate**

After the March 18-19 meeting of the FOMC, Janet Yellen stated the Federal Reserve could end its massive bond-buying program this fall and start raising the main interest rate as early as six months later, which was ahead of the futures market's expectations. In response to Yellen's comments, futures traders moved to price in an initial interest rate hike as early as April 2015, a couple months ahead of previous expectations for July 2015. The FOMC said it would look at a wide range of data, including currently low inflation levels, to determine when to raise the main interest rate from zero. They also backed away from a previous pledge to consider raising rates only when the unemployment rate declines to 6.5%. The median target interest rate forecasted by FOMC participants was 1.0% at the end of 2015 and 2.25% in 2016, due to upgraded expectations for gains in the labor market. Unsurprisingly, the central bank announced it would cut its monthly purchases of U.S. Treasuries and mortgage-backed securities to \$55B from \$65B

## **New Jobs and Unemployment**

Despite unfavorable winter weather conditions for much of the U.S., private payrolls continued to show healthy improvement in February and March. Private employment exceeded the pre-recession peak for the first time, with 192,000 new jobs in March, and the total job count reached 116.1 million, beating the January 2008 high of 116 million. The unemployment rate held at 6.7%, as nearly 500,000 people entered the workforce. Retailers, construction companies and health-care providers were among those increasing staff as the world's largest economy shook off the effects of the harsh winter weather, delivering 192,000 new jobs, which was slightly below Bloomberg expectations of 200,000 for March. The gain in total payrolls followed a larger-than-previously reported increase of 197,000 in February, with revisions adding 37,000 jobs to the previous two months.

## **Strong 5 Year Gains**

On March 9, 2014, the current equity bull market reached its five-year anniversary. During that time, U.S. equity investors have benefitted from the S&P 500's rise from a closing level of 676 on March 9, 2009, to 1872 as if March 31, 2014, for a cumulative price return of 177% and a cumulative total return (includes dividends) of 208%. The U.S. economy is stronger today than in 2009. In 2009, Gross Domestic Product (GDP) growth was a dismal -3.0% versus 2.4% in the fourth quarter of 2013, while unemployment was near 9.0% versus 6.7% in March 2014. Developed foreign and emerging market stocks had strong gains from March 9, 2009 through March 31, 2014 as well, but have underperformed robust domestic markets.

# Quarterly Market Review

First Quarter 2014



This report features world capital market performance and a timeline of events for the last quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the performance of globally diversified portfolios and features a topic of the quarter.

## Overview:

Market Summary

Timeline of Events

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Country Performance

Real Estate Investment Trusts (REITs)

Commodities

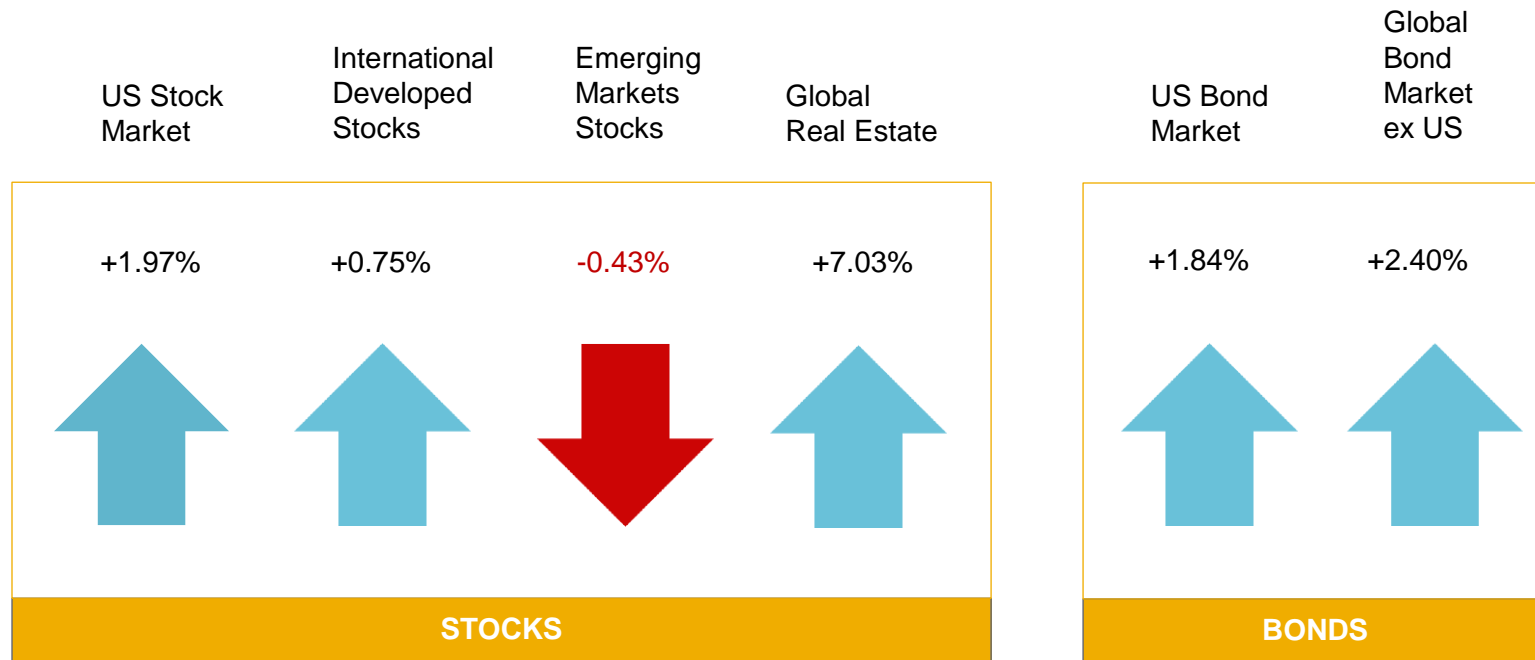
Fixed Income

Global Diversification

Quarterly Topic: Not Rocket Science

# Market Summary

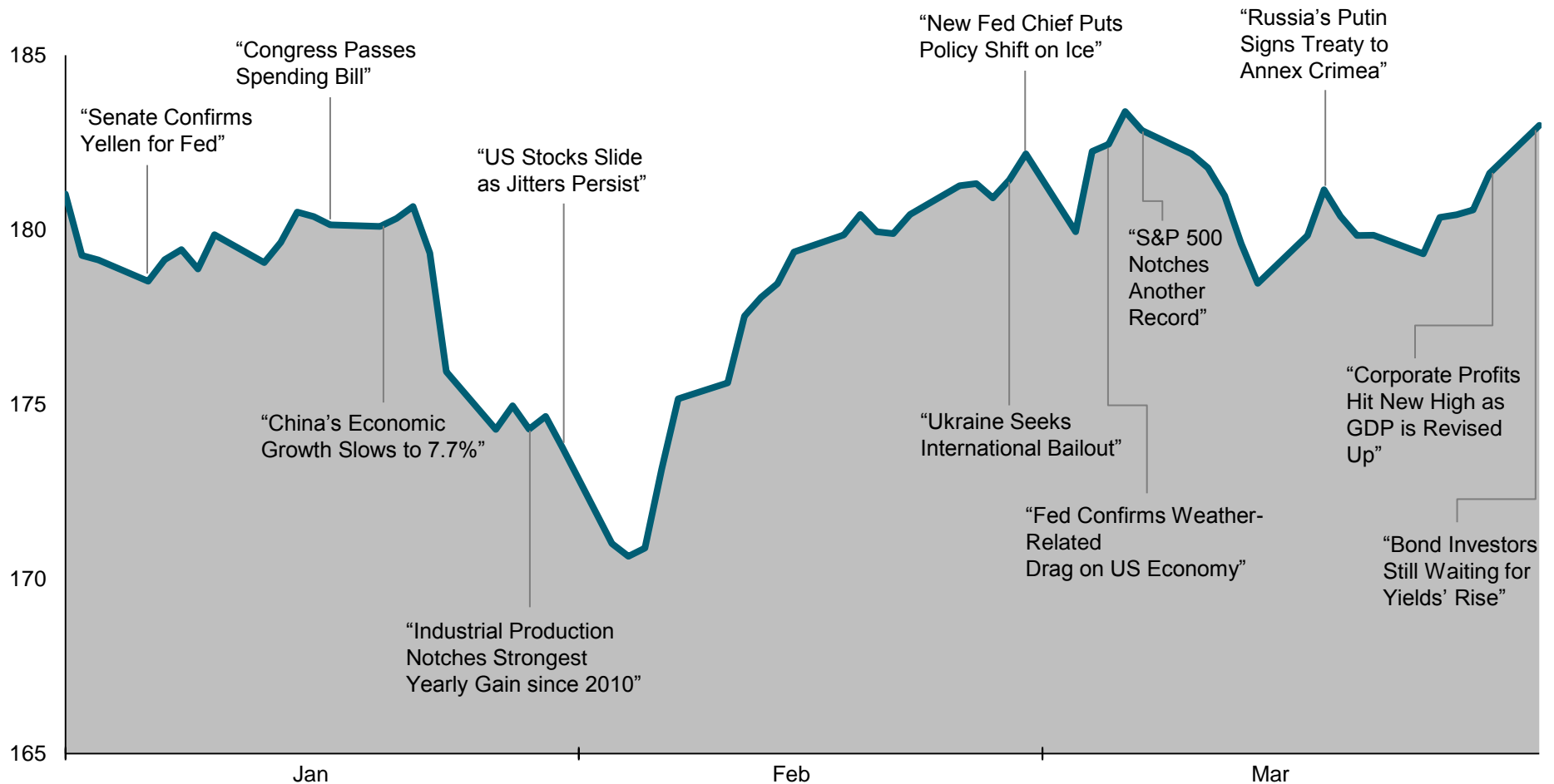
## First Quarter 2014 Index Returns



Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Barclays US Aggregate Bond Index), and Global Bond ex US Market (Citigroup WGBI ex USA 1-30 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Russell data © Russell Investment Group 1995-2013, all rights reserved. MSCI data © MSCI 2013, all rights reserved. Barclays data provided by Barclays Bank PLC. Citigroup bond indices © 2013 by Citigroup. US long-term bonds, bills, and inflation data © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).

# World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 2014



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a longer-term perspective and avoid making investment decisions based solely on the news.

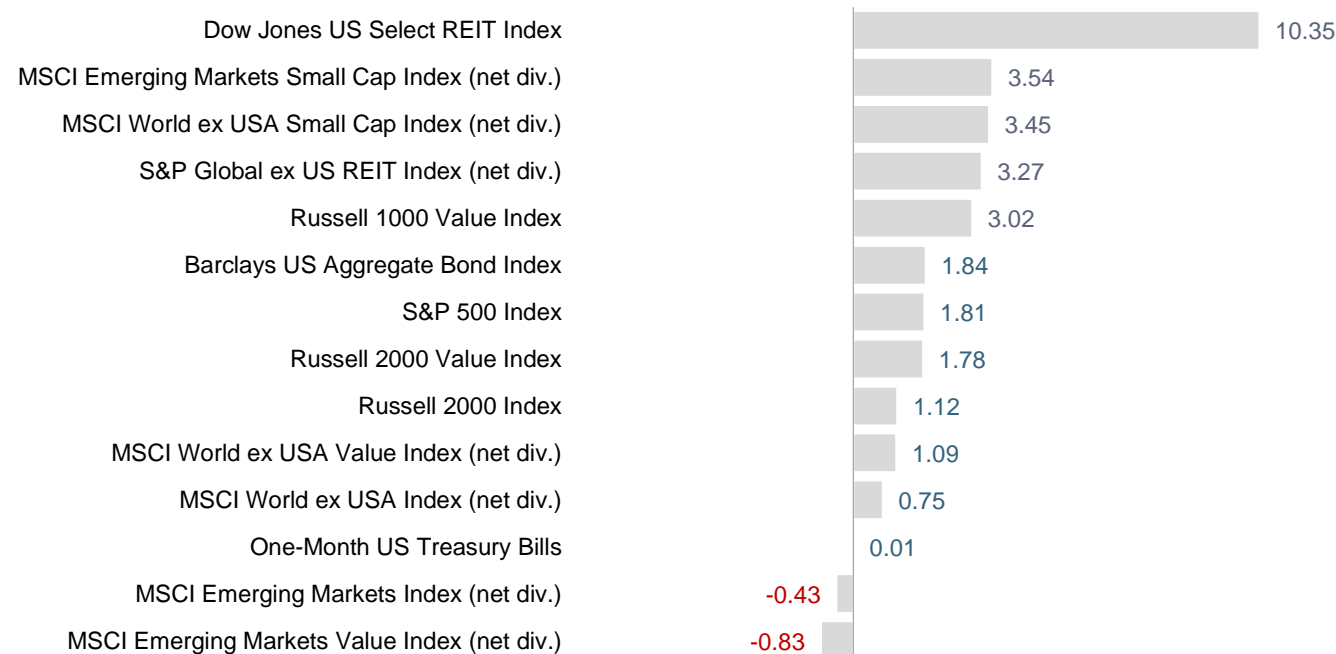
Graph Source: MSCI ACWI Index. MSCI data © MSCI 2014, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

# World Asset Classes

## First Quarter 2014 Index Returns

US REITs rebounded in the first quarter after declining in Q4 2013. Equity returns were mostly positive but lower than they were during much of 2013. While large caps in emerging markets lagged other equity asset classes, small caps in emerging markets were the top performers.



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 Market segment (index representation) as follows: US Large Cap (S&P 500 Index); US Small Cap (Russell 2000 Index); US Small Cap Value (Russell 2000 Value Index); US Value (Russell 1000 Value Index); US Real Estate (Dow Jones US Select REIT Index); Global Real Estate (S&P Global ex US REIT Index); International Developed Large, Small, and Value (MSCI World ex USA, ex USA Small, and ex USA Value Indexes [net div.]); Emerging Markets Large, Small, and Value (MSCI Emerging Markets, Emerging Markets Small, and Emerging Markets Value Indexes); US Bond Market (Barclays US Aggregate Bond Index); and Treasury (One-Month US Treasury Bills). The S&P data are provided by Standard & Poor's Index Services Group. Russell data © Russell Investment Group 1995–2013, all rights reserved. MSCI data © MSCI 2013, all rights reserved. Dow Jones data (formerly Dow Jones Wilshire) provided by Dow Jones Indexes. Barclays data provided by Barclays Bank PLC. US long-term bonds, bills, and inflation data © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).

# US Stocks

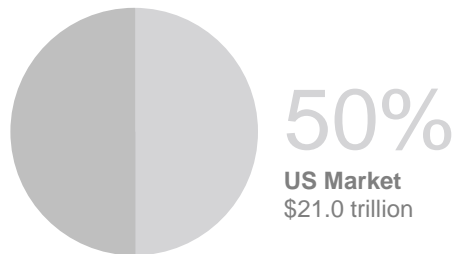
## First Quarter 2014 Index Returns

Following strong performance during 2013, the US equity market delivered modest positive returns in the first quarter.

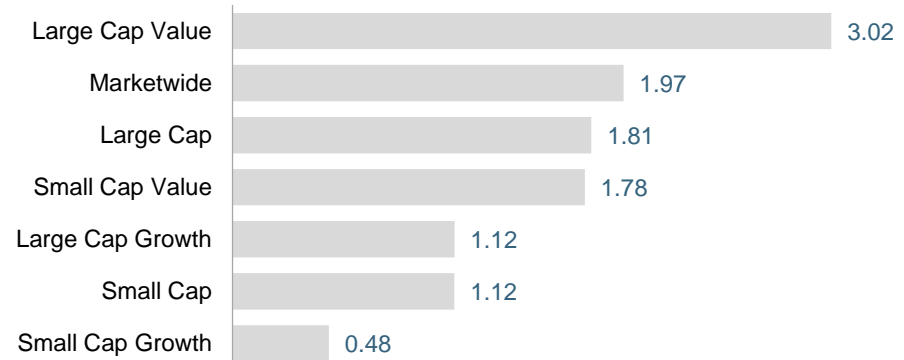
Value indices generally outperformed growth indices across all size categories.

Across the size dimension, large caps outperformed small caps.

### World Market Capitalization—US



### Ranked Returns for the Quarter (%)



### Period Returns (%)

Asset Class	YTD	* Annualized			
		1 Year	3 Years*	5 Years*	10 Years*
Marketwide	1.97	22.61	14.61	21.93	7.86
Large Cap	1.81	21.86	14.66	21.16	7.42
Large Cap Value	3.02	21.57	14.80	21.75	7.58
Large Cap Growth	1.12	23.22	14.62	21.68	7.86
Small Cap	1.12	24.90	13.18	24.31	8.53
Small Cap Value	1.78	22.65	12.74	23.33	8.07
Small Cap Growth	0.48	27.19	13.61	25.24	8.87

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (S&P 500 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap: Russell 3000 Index is used as the proxy for the US market. Russell data © Russell Investment Group 1995–2013, all rights reserved. The S&P data are provided by Standard & Poor's Index Services Group.

# International Developed Stocks

## First Quarter 2014 Index Returns

During the first quarter, international developed markets continued to post positive performance. Small caps outperformed large caps.

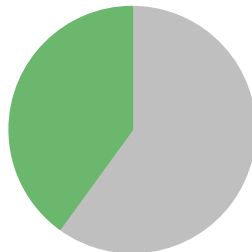
Value indices outperformed growth indices across all size segments.

The US dollar depreciated relative to many of the major international developed currencies.

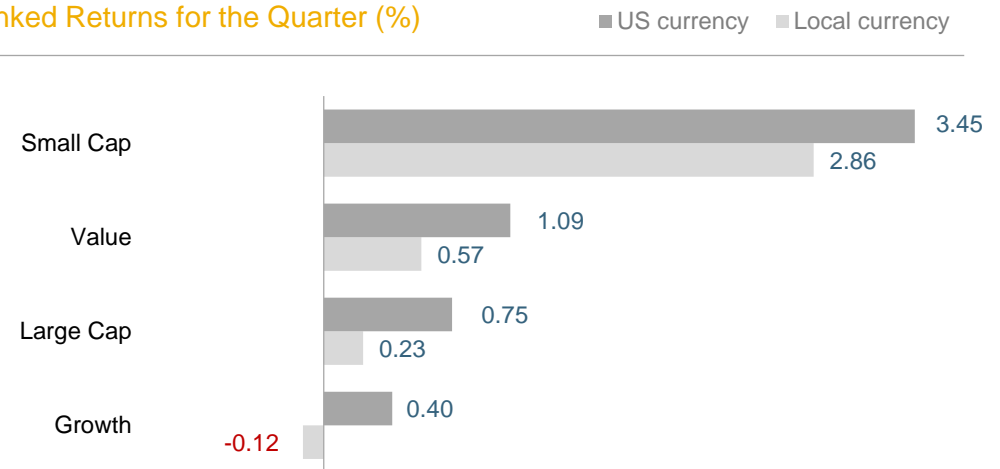
### World Market Capitalization—International Developed

40%

International  
Developed  
Market  
\$16.7 trillion



### Ranked Returns for the Quarter (%)



### Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
Large Cap	0.75	16.46	6.27	15.88	6.71
Small Cap	3.45	21.12	7.54	21.51	8.41
Value	1.09	19.08	6.57	16.39	6.71
Growth	0.40	13.88	5.94	15.33	6.63

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# Emerging Markets Stocks

## First Quarter 2014 Index Returns

Emerging markets generally lagged the US and non-US broad market indices during the first quarter.

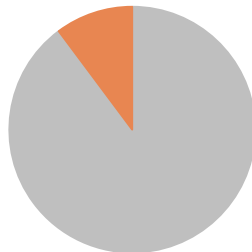
Small caps significantly outperformed large caps, and value underperformed growth across all size ranges.

Emerging markets currencies were mixed vs. the US dollar, with some of the major currencies seeing wide differences against the dollar.

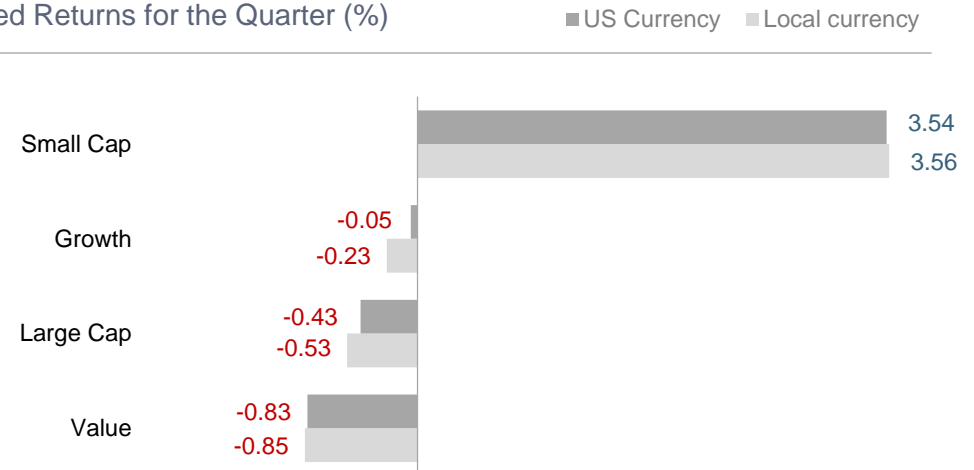
### World Market Capitalization—Emerging Markets

10%

Emerging Markets  
\$4.3 trillion



### Ranked Returns for the Quarter (%)



### Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	-0.43	-1.43	-2.86	14.48	10.11
Small Cap	3.54	0.40	-1.45	19.70	11.50
Value	-0.83	-3.60	-4.51	13.76	10.82
Growth	-0.05	0.66	-1.26	15.15	9.35

\* Annualized

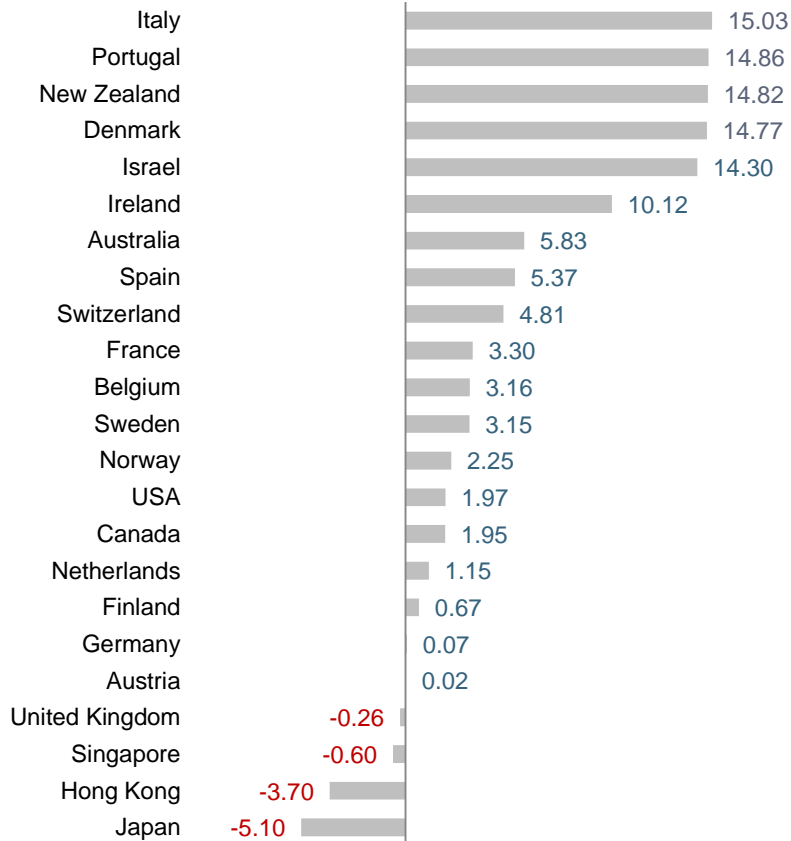
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap: Emerging markets proxies are the respective emerging country portions of the MSCI All Country World IMI ex USA Index. MSCI data copyright MSCI 2013, all rights reserved.

# Select Country Performance

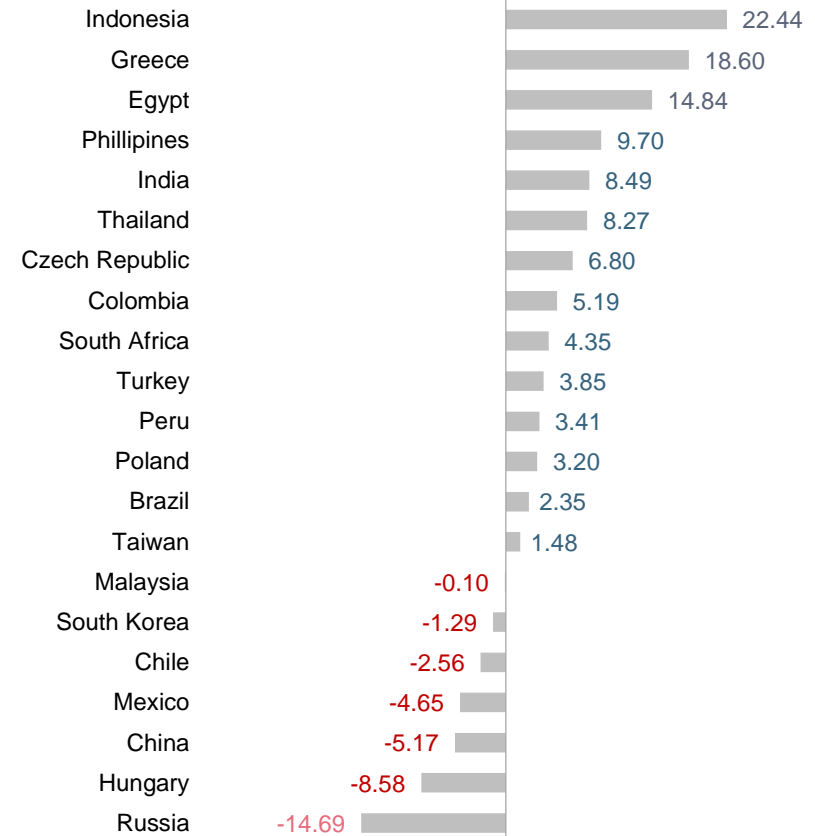
## First Quarter 2014 Index Returns

Italy and Greece continued to record strong returns for the quarter; Italy was the best-performing developed market. Indonesia was the best-performing emerging market. With Russia's recent military action and political unrest dominating news headlines, the Russian equity market recorded the lowest return in US dollar terms.

### Developed Markets (% Returns)



### Emerging Markets (% Returns)



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# Real Estate Investment Trusts (REITs)

## First Quarter 2014 Index Returns

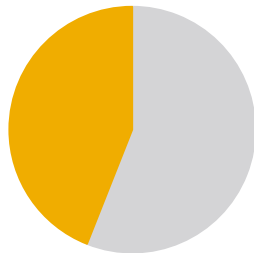
In a turnaround from 2013, REITs performed strongly during the quarter, particularly in the US.

Large cap REITs in the UK and Australia helped the performance of REIT securities outside the US.

### Total Value of REIT Stocks

**44%**

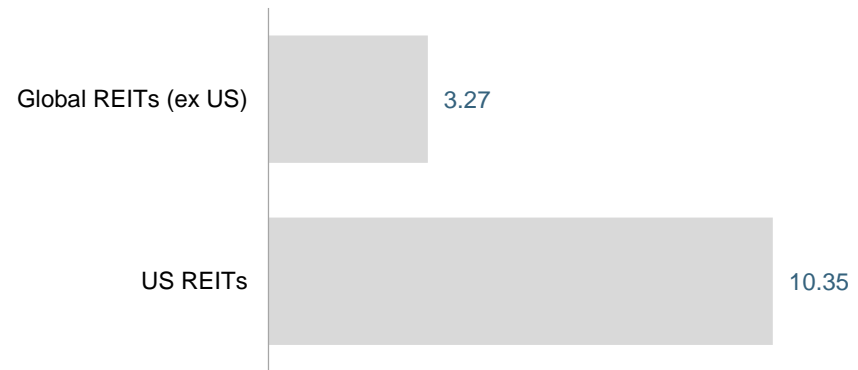
**World ex US**  
\$365 billion  
218 REITs  
(21 other countries)



**56%**

**US**  
\$472 billion  
86 REITs

### Ranked Returns for the Quarter (%)



### Period Returns (%)

\* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITs	10.35	4.35	10.27	28.92	8.05
Global REITs (ex US)	3.27	-1.59	6.91	19.82	5.98

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Dow Jones US Select REIT Index data provided by Dow Jones ©. S&P Global ex US REIT Index data provided by Standard and Poor's © 2013.

# Commodities

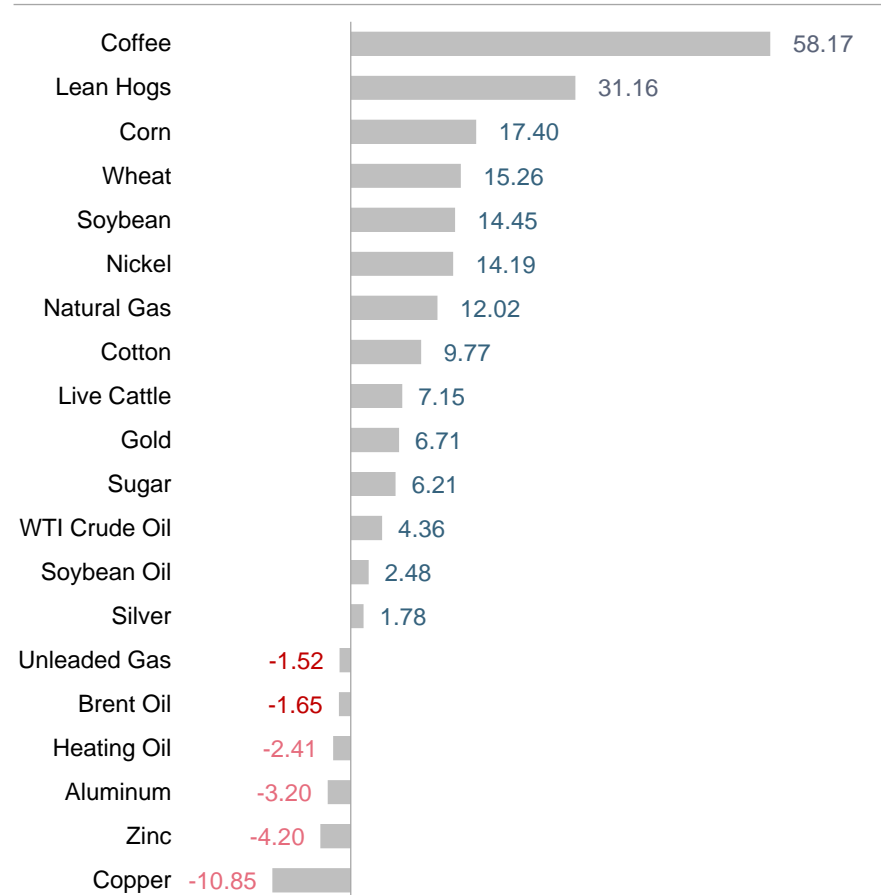
## First Quarter 2014 Index Returns

Commodities regained ground during the first quarter. The DJ-UBS Commodity Index rose approximately 7%.

Coffee, the biggest gainer in the index, returned just over 58%, which helped soft commodities generate significant positive returns as a group.

The energy complex produced mixed results. Gains in natural gas were somewhat offset by declines in gasoline and heating oil prices.

### Individual Commodity (% Returns)



### Period Returns (%)

\* Annualized

Asset Class	YTD	Q1	1 Year	3 Years*	5 Years*	10 Years*
Commodities	6.99	6.99	-2.10	-7.37	4.24	0.43

# Fixed Income

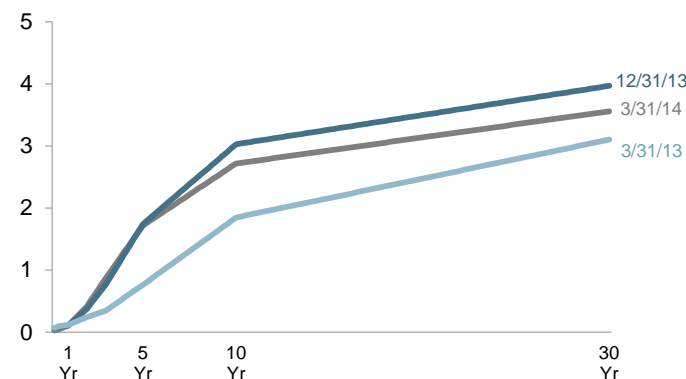
## First Quarter 2014 Index Returns

In her first meeting as chair of the Federal Reserve, Janet Yellen announced that the Federal Open Market Committee (FOMC) will taper its monthly asset purchases from \$65 billion to \$55 billion. The Fed continued to maintain an accommodative stance through monetary policy, holding the federal funds target rate range at 0.00–0.25%. US interest rates generally fell during the quarter.

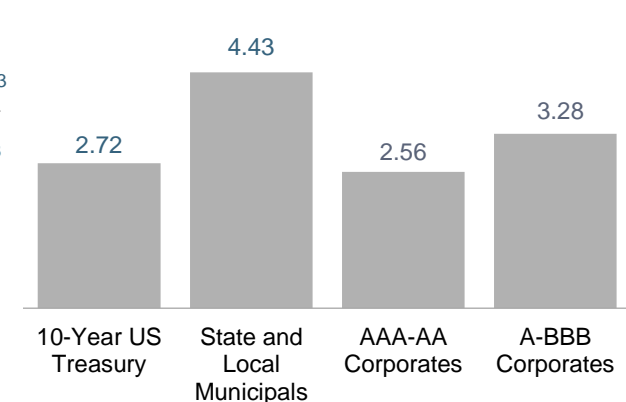
Broad US bond market returns were positive. The Barclays US Aggregate Bond Index advanced 1.8% during the quarter. Spread sectors, including corporate bonds, performed well, generating solid excess returns over Treasuries. Lower-quality bonds outperformed their higher-quality counterparts.

TIPS recovered somewhat from their 2013 decline. Municipal bonds generated solid returns.

US Treasury Yield Curve



Bond Yields across Different Issuers



Period Returns (%)

Asset Class	YTD	* Annualized			
		1 Year	3 Years*	5 Years*	10 Years*
BofA Merrill Lynch Three-Month US Treasury Bill Index	0.01	0.07	0.08	0.12	1.65
BofA Merrill Lynch 1-Year US Treasury Note Index	0.08	0.26	0.33	0.56	2.03
Citigroup WGBI 1–5 Years (hedged to USD)	0.55	0.93	1.94	1.82	3.12
Long-Term Government Bonds	5.30	-4.49	7.66	4.29	6.03
Barclays US Aggregate Bond Index	1.84	-0.10	3.75	4.80	4.46
Barclays US Corporate High Yield Index	2.98	7.54	9.00	18.25	8.68
Barclays Municipal Bond Index	3.32	0.39	5.79	5.71	4.45
Barclays US TIPS Index	1.95	-6.49	3.50	4.91	4.53

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# Global Diversification

## First Quarter 2014 Index Returns

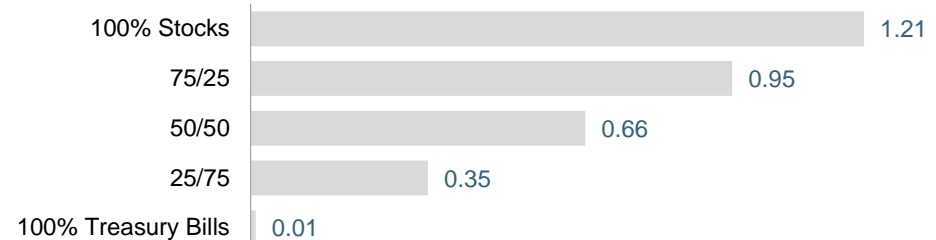
These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but also have higher expected returns over time.

### Period Returns (%)

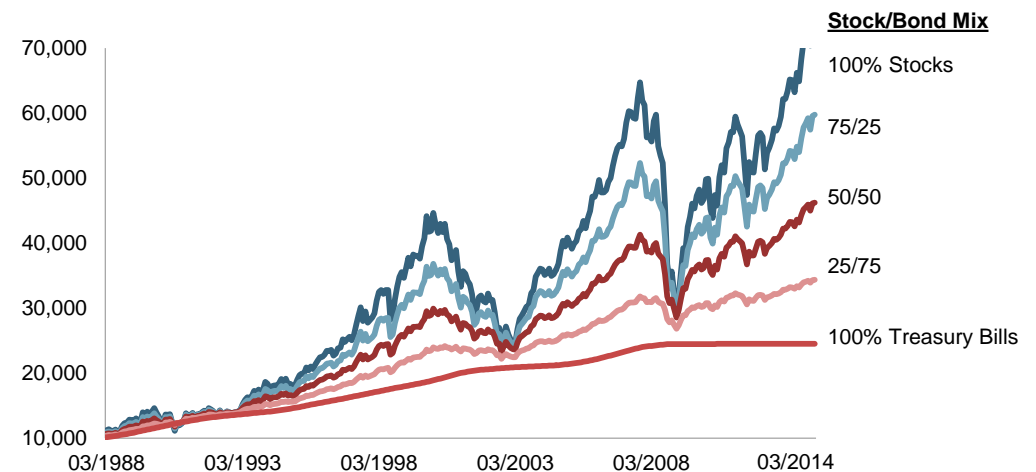
Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
100% Stocks	1.21	17.17	9.14	18.43	7.53
75/25	0.95	12.76	7.01	13.84	6.28
50/50	0.66	8.43	4.77	9.24	4.86
25/75	0.35	4.19	2.44	4.64	3.27
100% Treasury Bills	0.01	0.03	0.04	0.06	1.52

\* Annualized

### Ranked Returns for the Quarter (%)



### Growth of Wealth: The Relationship between Risk and Return



Diversification does not eliminate the risk of market loss. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management an actual portfolio. Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2013, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).

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