STOLZ COMMUNICATIONS

Work Sample

A favorable outlook for rest of 2013 -- barring major new geopolitical crises

August was a challenging month for bond and stock investors, but does not shake our confidence in how the rest of the year will turn out. And to keep things in perspective, if you are strictly investing for income, a drop in bond prices will not reduce your income stream. And as for stock investors, the market as measured by the S&P 500 is still well into the double-digits gain territory for 2013 so far, and much of August's decline has already been reversed.

With that backdrop, we believe the United States has again become the place to invest a major portion of your assets. Why?

Clearly the rise in the S&P in 2013 so far is a surprise to many market "sages" who had been pessimistic. The slide in the bond market, although predicted, was not expected to start this soon. It is hardly a disastrous situation, however -- particularly for those who were at least psychologically prepared for a rising interest rate environment with its negative impact on bonds.

U.S. equities have strong foundation

The U.S. equity markets, although still subject to some volatility, have a strong foundation. Usually equity markets decline during monetary tightening. Yet it appears that we will continue to have a relatively loose monetary policy for a couple more years, even as the Federal Reserve under the leadership of Ben Bernanke's successor begins backing away from its most aggressive effort to flood the market with cheap dollars, the strategy it employed five years ago.

Another positive indicator is the continued de-leveraging of the American balance sheet -- at least those of individuals. (Unfortunately, the federal government's debt burden continues to grow heavier.)

Several key sectors of the economy are poised to grow. That means accurate stock and ETF selection are essential. These are the ones we find most promising:

Favored sectors

- **Energy:** As America strives towards and accomplishes greater independence from foreign energy sources thanks to new domestic discoveries and more efficient means of extraction (e.g. hydraulic fracturing), energy companies should continue to grow.
- **Housing:** Not just homebuilders, but also manufacturers of the materials required to build and furnish homes. Rising interest rates over the last few weeks have made it harder for people to finance home purchases, but we believe this will sort itself out through a cooling off of spiking home prices we saw in the spring.

- **Technology:** While this sector has underperformed this year relative to the S&P 500 so far, it has started to ramp up and looks like a serious buy. Combine America's superiority in tech and most corporations' need to upgrade their IT systems, that spells growth opportunity.

The global political and security landscape is troubling (particularly Syria) and will continue to fuel some market volatility. Still, U.S. companies, on the whole, are much healthier. Decent earnings plus a strong balance sheet ultimately should overcome geopolitical-based market disruptions -- unless the Syria crisis enters an even more dangerous and deadly stage.

Portfolio adjustments

Although we do not believe the municipal market is dead, it is challenged today, for a variety of reasons. We did sell all of our municipal bonds in the high-yield area and re-allocated those funds to the taxable high-yield sector.

We have not made any other substantial changes, but we anticipate taking healthcare REITs (such as Healthcare Trust of America, or HTA) out of the growth-oriented portfolios, but leave it in the income-oriented portfolios.

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