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THE TEMPO VANTAGE

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Expect the Unexpected

Two thousand thirteen is not the kind of year that happens very often, but when it does we should rejoice. The last time the market performed this well was 1997. In fact the S&P 500 has only returned more on a calendar year basis four times in the last 50 years.

How good was it? The S&P 500 returned 32% and most other domestic stock indices returned as much or more. Foreign stocks stock also performed well, though the 23% return fell short of the U.S. stock market.

The news was not as good for bond investors as interest rates generally rose throughout the year. The -2% return for the BarCap Aggregate Bond Index was the worst return since 1994 and only the 5th annual loss over the past 50 years.

After such a great year, indeed after the past five years of attractive stock market returns, what can we expect for 2014?

No one can say for sure, and you should run from anyone that says they can. But here are a few themes I'd keep my eye on:

Higher Interest Rates: This is a continuation of the trend that began in 2013. While it won't be a straight line up for interest rates, I don't see anything that will cause the overall direction of rates to reverse. The Fed has already started reducing the $85 billion per month bond purchasing program and that is only likely to accelerate as the economy continues to improve.

Stronger U.S. Dollar: The U.S. economy, though still somewhat sluggish, is leading the world out of recession. And while our Fed has started winding down its easy money policies, other central banks in Europe and Japan still remain quite accommodative. This change in relative rates should lead to a stronger dollar, reversing a 10-year decline.

Lower Stock Market Returns: I'm not exactly going out on a limb on this one. The statistics above about the frequency the stock market returns in excess of 32% should be enough to convince you. But there are other reasons. Higher interest rates, which are usually bad for stocks, are at the top of the list.

Interestingly, higher interest rates are also a reason I don't expect the market to fall meaningfully either. Ultimately stocks, bonds, and real assets (metals, oil, real estate, etc.) are all competing for our investment dollars. We've got to put our money somewhere. Commodities, real estate and bonds are all performing poorly. The stock market may be the only game in town. Even if rates were to go from 3% to 4% we can live with 4%. That is still a far cry from the rates in the late 1970s and early 1980s that would make interest rates a major concern.

Expect the Unexpected: It is impossible to account for everything. Something unknown today will surely derail the best prognostication. Earthquake, tsunami, turmoil in the Mid-East, a weak Eurozone, a China slowdown, U.S. politicians disagreeing, U.S. politicians agreeing (which would be more surprising), terrorist activity, oil shock, or… your guess is as good as mine. In the words of the great Roseanne Roseannadanna, "it's always something- if it ain't one thing, it's another."

Tempo Financial Advisors' 4th Quarter Investment Performance

I have finally figured out the key to happiness (other than health… and a happy wife). All I need is for Tempo's investment programs to perform as well as they did in 2013!

Let's begin with the **Tempo Dynamic Income Program**. Dynamic Income returned 3% in the 4th quarter and 6% for 2013. This ranks last among Tempo investment programs on both counts. And yet it may have had the best year of all. How can that be? Relative performance.

Income producing products had a tough year with most bond categories suffering losses: BarCap Aggregate Bond Index -2%, inflation protected securities (TIPs) -9%, municipal bonds -3%, long term U.S. Treasuries -14%, investment grade corporate bonds -2.5%. You get the idea.

Not only did we sidestep these declines but we generated an attractive return. We did it by focusing on pockets of the income world that held up (high yield bonds, convertible bonds, and bank loan bonds) as well as alternatives.

A 6% return in this environment is a home run.

The **Tempo Dynamic Growth Program** returned 5.4% in the 4th quarter and 14% for 2013. I am pleased any time this moderately conservative strategy generates a double-digit return. And although a 14% return is in line with relevant benchmarks, I never mind being in line with benchmarks when they are up considerably.

Our most profitable investment program was **Tempo Lifestyle.** This is nearly always the case in a strong up market. Returns for 2013 ranged from 20% for conservative accounts to 30% for aggressive ones. Equally as important is that all returns were in excess of benchmarks (unmanaged portfolios with similar allocations to stocks, bonds, etc).

As you know the investments within Lifestyle accounts evolve with my on-going research and thinking. Rest assured that the themes mentioned above are either already reflected in your accounts or they will be shortly.

Company News

I am pleased to announce that we have updated the Tempo Financial Advisors web site (www.TempoAdvisors.com). The new site has a new look and flow. I hope you find it attractive, intuitive, and informative… and that you tell all your friends to check it out!

Reminder

Please contact us if there has been a change in your financial circumstances that would warrant a fresh perspective on your portfolio.

Daniel J. Traub