RITTMANN

Capital Management

Q4 2013 Commentary

Note to Clients:

The stock market posted double-digit gains in 2013, fueled by easy money policies from the Federal Reserve and signs of improvement in the economy. It was the best year for stocks since 1995.

After starting 2013 with a big rally as a result of Washington's addressing and therefore avoiding the "Fiscal Cliff", the market reached new highs in the first quarter. But as we ended the month of May, the Fed Chairman began to describe the conditions for "tapering" or slowing the current phase of Quantitative Easing. Markets did not respond well as investors wondered "will they or won't they, and when?" the actual tapering would begin. At the end of the summer, our politicians threw the market a curve ball. News headlines were dominated by the budget standoff and the resulting government shutdown, as well as the debt limit deadline. Equity prices fluctuated on reports of negotiations and potential deal setbacks. Finally, an agreement to extend spending and increase the borrowing limit prior to the debt ceiling deadline was reached. That news helped stocks rally once again.

In the meantime, we saw an interesting change in how investors interpret "Fed speak" and economic data. For most of 2013, the market declined on occasional news of strong economic figures. Investors feared that such data would push the Fed to end its bond buying programs. The Fed bond buying has been a major catalyst for the market's rise. So, good news was bad news for the market, and bad news was good news for the market. That changed in November. The data in November collectively showed one of the strongest economic pictures in some time. Jobs, manufacturing, consumer sentiment, trade deficit, and Gross Domestic Product- all suggested a modestly accelerating economy. The market rallied as a result, and in mid-December, the Fed announced that it would reduce its monthly purchases, thus the tapering process has begun!

So, as we begin 2014, we see the following as very encouraging factors: the U.S. economy is poised to do better than expected and a broadening of confidence with consumers and businesses, global growth is definitely picking up, and the Fed's easy-money monetary policy remains intact with the hand off from Chairman Ben Bernanke to Janet Yellen.

In addition, Americans' wallets are fatter. The net worth of U.S. households rose to an all-time high in 2013. After years of slow growth, economists expect output to grow faster next year.

More Americans feel wealthier due to rebounding house prices and stock market advances. This economic momentum trend could make households more inclined to spend and borrow, thus giving the economy a lift
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We continue to like technology because of an expected pickup in capital expenditures. Technology stocks benefit from faster growth, and businesses have been sitting on mountains of cash. Next year, we will see them return to investing a bit more, and historically, one of the first ways is in new software and hardware. We still focus on companies involved in Big Data, Cloud Computing and Mobility. We are seeing big changes in how software innovation is replacing old industries with services that are smarter, faster, and cheaper.

We will look to hedge our pro-earnings growth oriented investing model by looking at a one or two large or cash-rich international companies that could outperform small or more leveraged companies. These high-quality companies (stable growth and strong balance sheets) have seen no little or no multiple expansion during the last few years of hyper-stimulus, so they could see nice gains while at the same time hedge any volatility in the U.S. market.

We remain very bullish on the energy renaissance that is happening across America. A pick-up in demand from Europe and the Emerging Market countries should boost or keep the price of crude oil at or around $90 a barrel, thus keeping the economies in place for our companies to succeed. Energy stocks actually underperformed the overall market in 2013, but we still favor and will invest in companies involved in exploration and production, and the pipeline companies that transport petroleum products across the nation.

2013 was a great year for the stock market. It might be a difficult act to follow in 2014. We remain bullish and will not be changing our equities positioning going into 2014. We think the year ahead should be a healthy one for stocks, as we are bullish and optimistic, but not wildly optimistic. We will continue to look for companies that are growing and innovating above others.