Market Commentary
Q2 2013

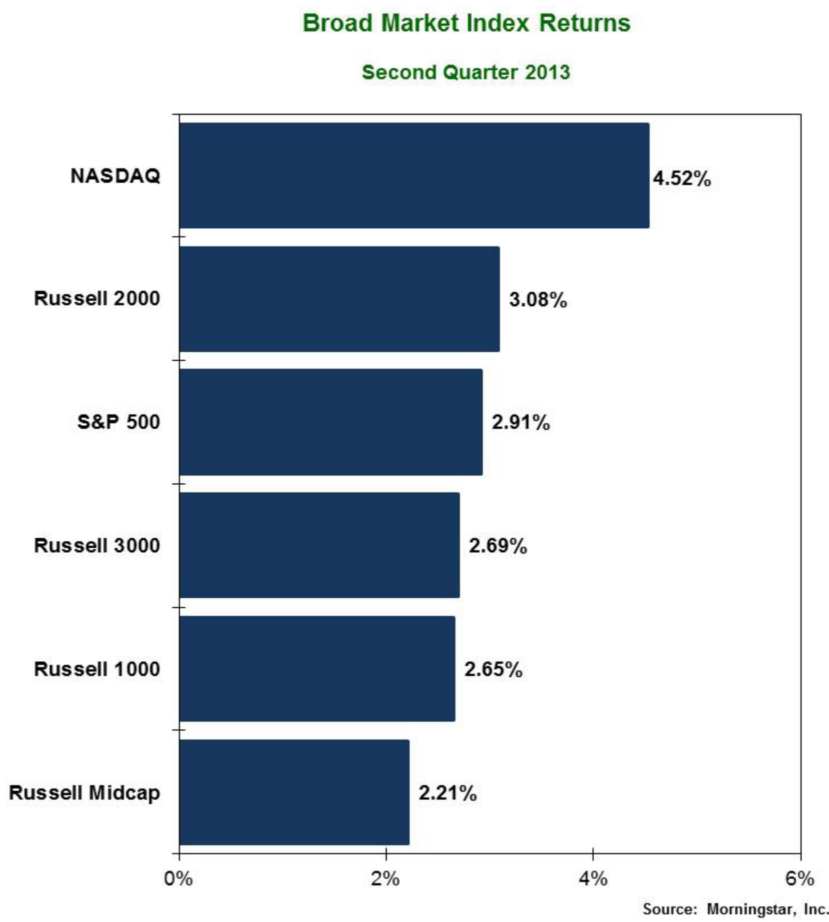
Ramsey & Associates, Inc.
(206) 324~1950
info@RamseyAssoc.com

THIS IS A SAMPLE QUARTERLY REPORT LETTER THAT WE SEND TO OUR CLIENTS.

This past quarter was characterized by volatility in the global financial markets, particularly emerging markets and a decline in bonds due to a spike in interest rates. Commodities were also down for the quarter. However, on the positive side, the domestic stock market continued its upward swing this past quarter with nearly all major indices solidly in positive territory. In fact, year-to-date, most areas of the domestic equity markets are doing very well.

The Economy

With the political discussions over the budget and the nation's longer-term fiscal health pushed to the background for the time being, the economy in the second quarter continued to generate slow, but steady gains. Sequester-related fiscal drag was at least partially responsible for the restrained results. While employment gains were much less impressive than in the first quarter, housing continued to show very nice gains, as various measures of the segment extended recent positive trends. Consumer confidence also ended the quarter at multi-year highs, largely due to an absence of political wrangling, as well as strong equity market performance. On the negative side of the ledger, after rebounding in the first quarter, manufacturing pulled back in the second quarter.



Globally, after flaring up again in the first quarter, the eurozone fiscal situation was quiet in the second quarter. As opposed to

Ramsey & Associates, Inc.
(206) 324~1950
info@RamseyAssoc.com

the aggressive monetary policies adopted by the U.S. Federal Reserve, the European Central Bank (ECB) has been very conservative for some time, and many economists believe that in order to spur growth in the region the ECB will need to become more accommodative. Japan was also a highlight in the second quarter, as Japanese stocks rallied as a result of enthusiasm for Prime Minister Abe's growth-oriented policies. In addition to surging stock prices, the Japanese yen weakened substantially. Japan's market was very volatile at the end of the quarter, which is to be expected after such strong gains.

The outlook for China's economy was also of primary importance to investors during the quarter. Emerging markets equities underperformed again during the quarter, largely due to a slowing economic growth rate in China. In addition, investors reacted negatively to a perceived cash crunch in China as authorities sought to rein in development that could lead to a real estate bubble. Most economic data in China during the second quarter - including GDP growth, industrial production and consumer prices - demonstrated the slowing growth. Chinese authorities did take steps at the end of the quarter to alleviate the cash crunch, which cheered investors and led to a strong rally in emerging markets equities during the final week of the quarter.

The employment situation remained steady during the quarter, but the average number of jobs added per month dipped. The Federal Open Market Committee (FOMC) is maintaining a target threshold of 6.5% unemployment rate as the trigger for a decision on when to initiate an increase in short-term interest rates. Most economists continue to believe that employment gains will remain relatively muted the remainder of this year before accelerating in the latter half of 2014. In addition, FOMC members believe that it is likely that the threshold unemployment rate will be achieved sooner than most believe, and that rates could be on the rise in early 2015.

Even though there was no formal change to the Fed's monetary policy in the second quarter, there certainly was a great deal of related activity. For the time being, the Fed is maintaining its program of monthly purchases of $45 billion of Treasury securities and $40 billion of mortgage-backed securities. However, in congressional testimony in May Fed Chairman Ben Bernanke introduced the idea that a tapering of the bond-purchase program could begin even before the end of the year. This idea was supported by the FOMC's statement following its June meeting. As a result, interest rates spiked and equity markets declined.

Ramsey & Associates, Inc.
(206) 324~1950
info@RamseyAssoc.com

Highlights

GDP

The Bureau of Economic Analysis released the third estimate of the first quarter 2013 real GDP, a seasonally adjusted annualized rate of 1.8%, up from the 0.4% annualized growth of the prior quarter. However, the latest release represented a material downward revision from the first two estimates of the quarter, the advance estimate of 2.5% and the second estimate of 2.4%. The increase from the prior quarter was driven by several factors, including increased consumer spending, which rose by 2.6%. The bump in consumer spending was accompanied by a reduction in the savings rate to 2.5% from 4.7%. The downward revision from prior estimates is largely a result of sequester-related fiscal drag. Domestic profit growth fell by 1.4% after rising 2.3% in the fourth quarter. The decline in profits was broad-based, impacting both financial and non-financial corporations. Growth is expected to accelerate later this year as the effects of the sequester-related fiscal drag wears off. Many economists expect real GDP growth to rise to about 3.5% in 2014 and to 4% in 2015.

HOUSING

During the second quarter of 2013 the housing segment continued the upward trajectory of recent prior quarters. Analysts attribute the overall economy's steady recovery to the positive turnaround in housing. Existing-home sales for May (the latest monthly data available) advanced at an annualized rate of 5.18 million units, the fastest pace since fall 2009. The inventory of existing homes remained tight, with 5.2 months of supply. Existing-home prices also continue to rise, with the median price up 15.4% from a year ago. In the new-home segment, the NAHB Housing Market Index, a measure of homebuilding activity, posted its largest on-month jump since 2002. The index is now at its highest level since 2006, indicating that homebuilders are optimistic about both the near- and long-term trends. Housing analysts anticipate that continued recovery in the job market, low mortgage interest rates and pent-up demand will fuel further gains in housing.

EMPLOYMENT

The employment situation remained fairly resilient in the second quarter, posting a moderate advance in the face of sequester-related headwinds. With cutbacks in government employment, private sector gains are picking up the slack. The May payroll report, the latest available, showed a gain of 175,000 jobs, slightly above consensus expectations of a gain of 164,000. However, the gains posted for the prior two months were revised downward by a total of 12,000. The average

Ramsey & Associates, Inc.
(206) 324~1950
info@RamseyAssoc.com

number of jobs added for the three months ended May was only 155,000, far below the average of 207,000 for the first quarter. The unemployment rate rose slightly in May to 7.6% after having established a new post-recession low of 7.5% in April. The Fed continues to state that an unemployment rate of 6.5% will be a target level for deciding when it will begin to raise rates. Many economists expect employment gains to remain muted for the remainder of the year due to the fiscal drag caused by the sequestration and other budget cutbacks. However, the consensus expects gains to accelerate into 2014, and pick up materially in 2015.

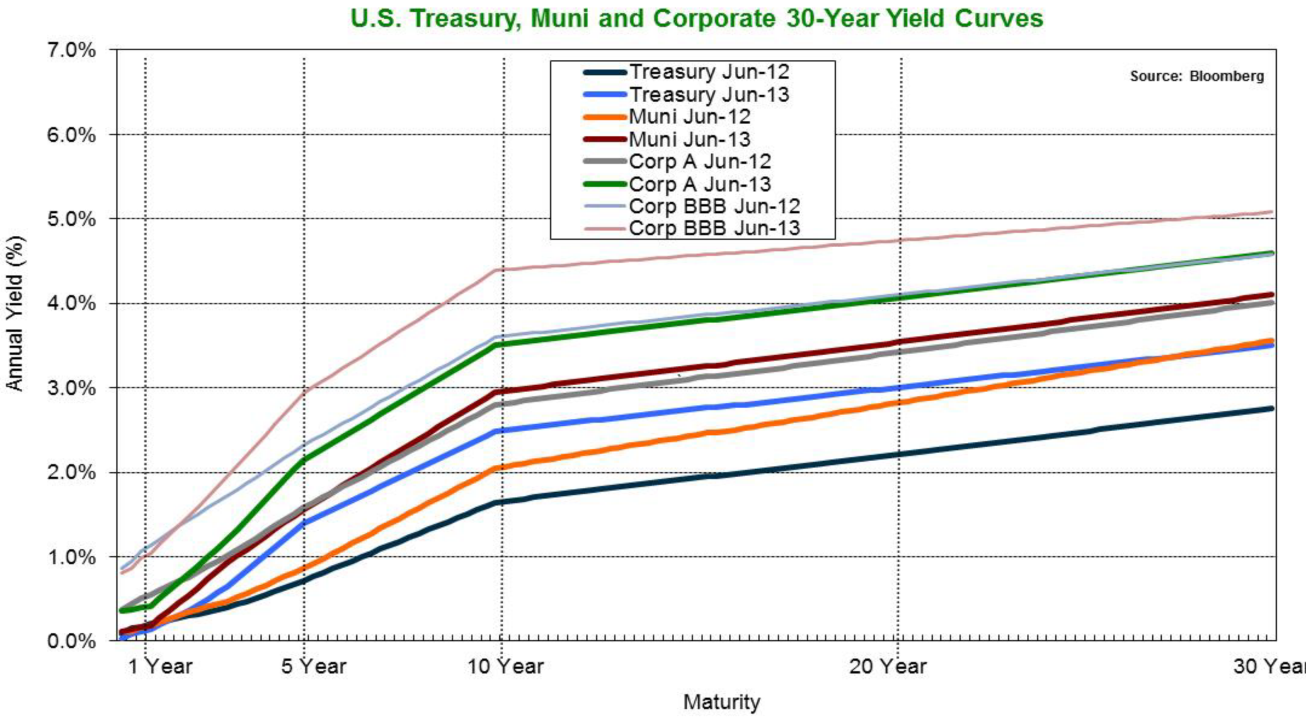
FED POLICY

The Federal Open Market Committee (FOMC) once again stood pat during the second quarter, maintaining existing policies. The FOMC kept in place its monthly program of buying $45 billion of Treasury bonds and $40 billion of mortgage-backed securities. In the statement released following its most recent meeting in June, the FOMC was somewhat more hawkish than investors had anticipated, saying that the downside risks to the economy have “diminished” since the fall. This language, along with Fed Chairman Ben Bernanke’s congressional testimony in May stating that it is possible that a “tapering” of the bond-buying program could begin as the economy improves, made investors anxious, and caused a spike in interest rates and a drop in stock prices. The FOMC also maintained its existing target of 0%-0.25% for the fed funds rate, and the consensus among Fed policymakers is that an increase in that target likely won’t occur until late 2014 or perhaps even 2015. The Fed expects that will be the first time when its dual threshold targets – an unemployment rate below 6.5% and inflation above 2.5% - will be met.

Interest Rates

Fixed-income securities experienced what many analysts have determined may be a long-term low in yields during the second quarter. After meandering lower during April, yields began a steady rise through May and June as a result of investor anticipation of a tapering of the Fed’s bond-buying program, which would signal the end of an unprecedented era of Fed monetary aggressiveness. While the Fed itself has not established a date when it will begin to scale back bond purchases, investors are beginning to discount when the next phase may occur. As a result, the yield on the benchmark 10-year U.S. Treasury rose to 2.49% as of June 28th from 1.85% on March 31st. The 64 basis point rise was the largest quarterly increase since the fourth quarter of 2010. Yields trended to a quarterly low of 1.63% in early May, but then staged an advance to levels last reached in August 2011 that was fueled by Fed statements that risks to the economy have “diminished” over the past few quarters.

Ramsey & Associates, Inc.
(206) 324~1950
info@RamseyAssoc.com



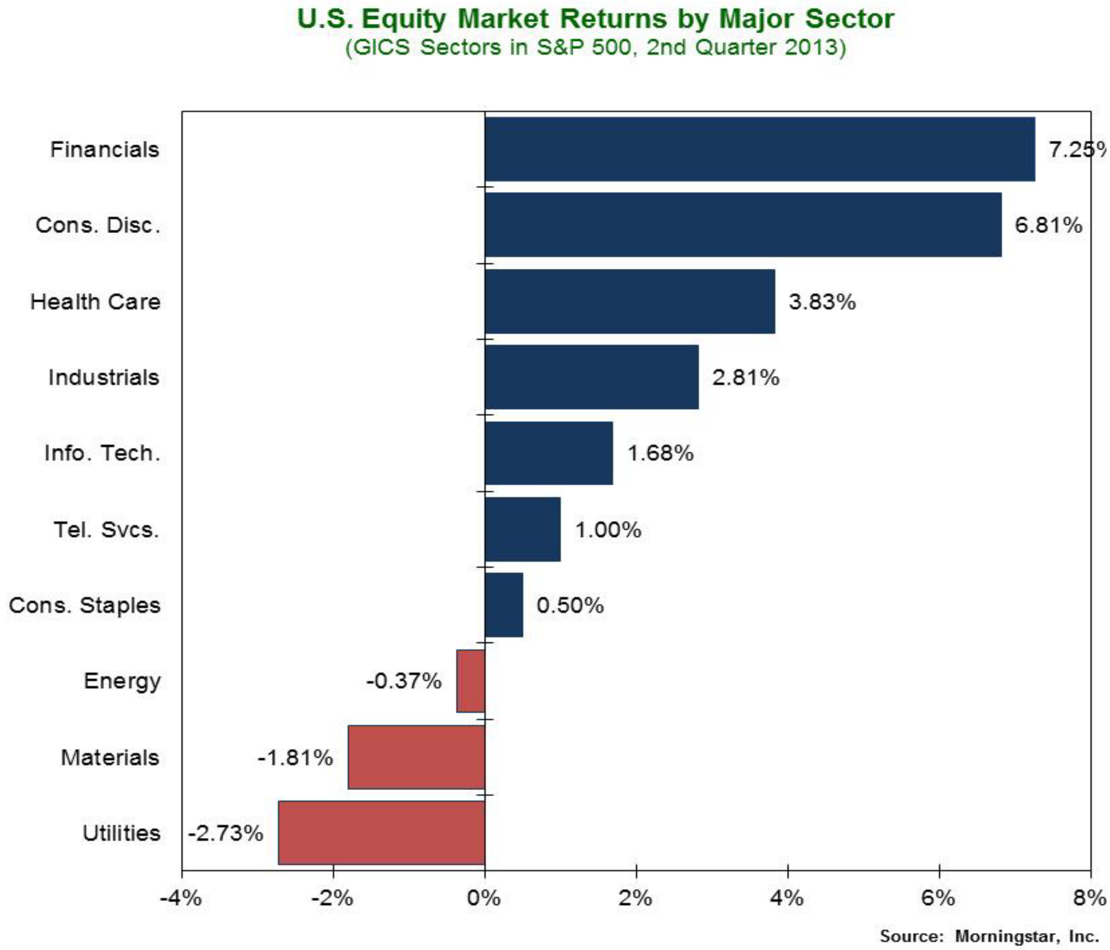
With this environment as a backdrop, yields were generally higher, particularly further out on the yield curve. Inflation expectations continued to moderate during the quarter, with the Fed's gauge of five-year forward inflation expectations declining to 2.38% on June 28th from 2.72% on March 28th.

With speculation abounding as to when the Fed may begin tapering its bond purchases, yields on credit securities jumped during the quarter. Despite the generally positive environment for the equity market during the quarter, yields on high-yield securities were not immune to the overall rise in interest rates, surging to 7.02% from 6.47% at the end of the first quarter. Municipal bond yields were also adversely impacted during the quarter.

Equity Markets

The domestic equity market continued to march forward in the second quarter, posting moderate gains overall. However, stock prices lost ground in the latter half of the quarter as a result of investor expectations of an end to Fed monetary aggressiveness sooner rather than later. As a result, even though stocks generally advanced for the quarter, the S&P 500 Stock Index's monthly decline for June was its first since October 2012. For the entire quarter, the S&P 500 gained 2.91%.

Ramsey & Associates, Inc.
(206) 324~1950
info@RamseyAssoc.com

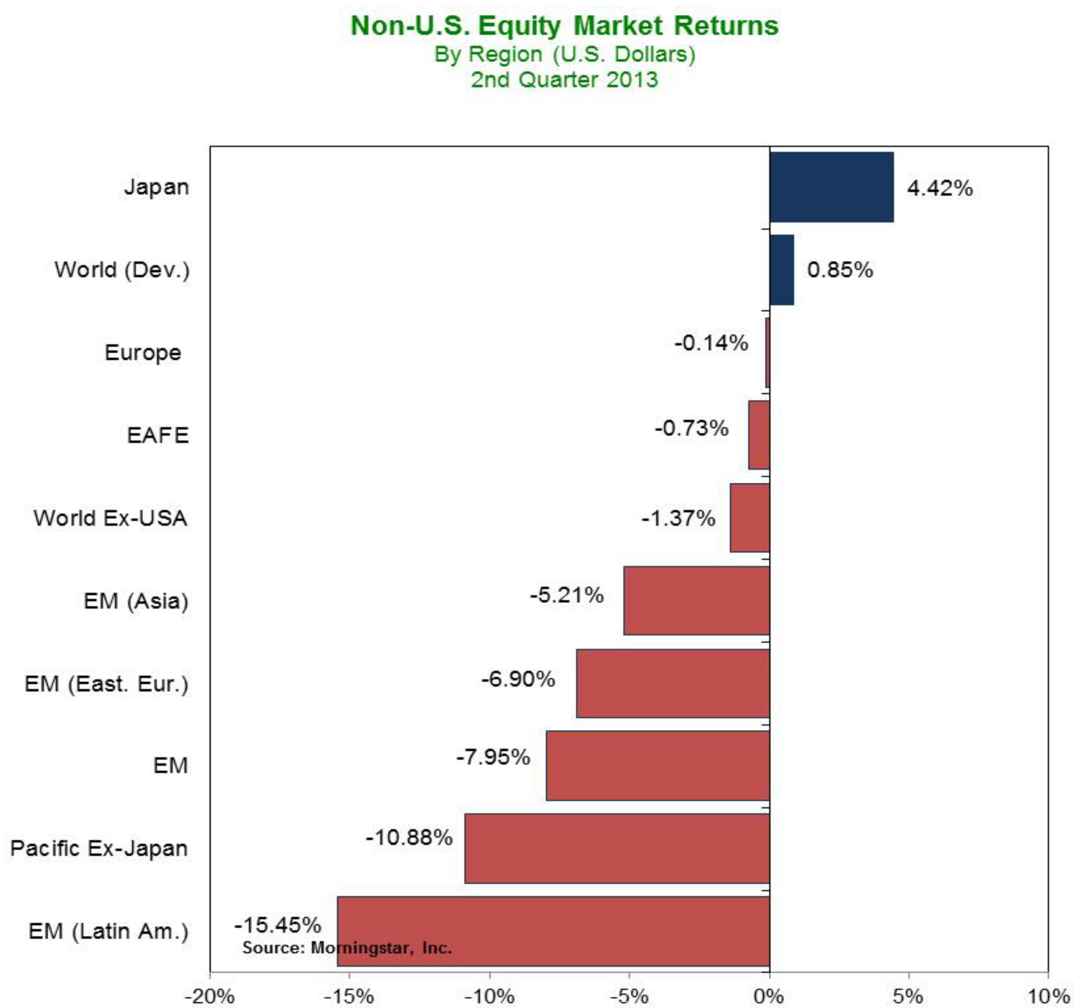


The second quarter began in much the same way the first quarter ended, with stocks performing well. Indeed, the S&P 500 posted gains in each of the first two months of the second quarter, extending its streak of consecutive monthly gains to seven. Prior to June's decline, the S&P 500 last booked a monthly drop in October 2012. Unlike the first quarter, however, individual sector performance was extremely varied. The financials, consumer discretionary and health care sectors were the top performers in the second quarter, posting 7.25%, 6.81% and 3.83% gains, respectively. The utilities, materials and energy sectors brought up the rear on a relative basis, generating -2.73%, -1.81% and -0.37% returns, respectively.

For the quarter, the Russell 1000 Index of large capitalization stocks posted a +2.65% total return. Within the large-cap segment, value stocks outperformed growth stocks by about 114 basis points. Small capitalization stocks, as represented by the Russell 2000 Index, outperformed large-caps, ending with a total return of +3.08%. Growth stocks outperformed value stocks within the small-cap segment.

Ramsey & Associates, Inc.
(206) 324~1950
info@RamseyAssoc.com

As has been the case in recent prior quarters, international stocks had a difficult time relative to domestic U.S. equities during the second quarter. However, there were pockets of opportunity in the quarter. The MSCI EAFE Index of developed markets stocks declined -0.73% during the three months ended June 28th. International developed markets stocks have underperformed U.S. stocks by more than 350 basis points over the past 12 months. One foreign market delivering strong performance during the quarter was Japan, which rose on anticipation of growth policies supported by Prime Minister Abe. The Nikkei 225 Index ended the quarter higher by +4.42%, but had been higher earlier in the quarter. Emerging markets stocks once again lagged significantly during the quarter, with the MSCI Emerging Markets Index generating a return of -7.95%.



Ramsey & Associates, Inc.
(206) 324~1950
info@RamseyAssoc.com

Looking Forward

After a period of strong performance over the past three quarters, we believe the outlook for equities is less clear in the near term. The prospect of having the Fed's quantitative easing program scaled back may be a positive for equities because it implies that economic growth may be improving. However, no longer will investors have the safety net of indefinite monetary stimulus to fall back on. Rather, the focus will now clearly shift back to fundamentals, and earnings growth will be the driver of any market advance going forward. While this may result in volatility over the ensuing weeks as investors digest the transition to a market no longer aggressively primed by the Fed, one potential outcome is that stock-picking will be at a premium as companies' unique prospects and fundamentals will return to the fore. For that reason, the long-awaited resurgence of active managers may finally be in the offing. The stock price declines and volatility that occurred in the last three weeks of the quarter could also be considered a positive for the long-term. By signaling that tapering could occur as early as September, it is likely that the Fed wished to begin setting expectations so that equity prices don't experience a severe decline as is usually the case during periods of interest rate normalization. In essence, we believe the Fed is trying to smooth out the impact to equities, and in that sense, constrained declines should be considered a positive.

Please be sure to let us know if you have any concerns regarding your portfolio or if you feel your asset allocation is no longer appropriate for your situation.

As the glorious summer sun is streaming in my window I'm reminded of all the activities that come with it—swimming, hiking, biking, sun worshipping…which brought the following quote to mind:

> *And in the end it's not the years in your life that count. It's the life in your years.*
> --Abraham Lincoln

Here's to a summer full of LIFE!