**Investment Review & Outlook**
**3rd Quarter 2013**

The third quarter ended with the threat of a government shutdown virtually guaranteed that the investment markets would close out the third quarter with a whimper rather than a bang. The S&P 500 index lost 1.1% of its value in the final week of the quarter as the U.S. Congress seemed to be lurching toward a political standstill that would shut down the U.S. government. All the uncertainty has tended to obscure the fact that most U.S. stock market investors have experienced significant gains so far this year.

Despite the rocky final week, the Wilshire 5000--the broadest measure of U.S. stocks and bonds--rose 6.60% for the third quarter--and now stands at a 22.31% gain for the first nine months of the year. The widely-quoted S&P 500 index of large company stocks gained 5.32% for the quarter and is up 18.62% since January 1.

Small company stocks, as measured by the Wilshire U.S. Small-Cap, gained 9.68% in the third quarter; the index is up 27.53% so far this year. The technology-heavy Nasdaq Composite Index was up 11.16% for the quarter, and has gained 25.24% for its investors so far this year.

In the first half of the year, any diversification into investments other than U.S. stocks were dragging down returns. That saw a change in the third quarter. The biggest surprise was Europe: a basket of European stocks rose 13.16% over the past three months, which accounts for virtually all of their returns this year. Emerging markets stocks are climbing out of a deep hole that they fell into earlier in the year, returning 5.01% in the past three months, even though the EAFE Emerging Markets index is still down 6.42% for the year.

Bonds have continued to provide disappointing returns both in terms of yield and total return. The Barclay's Global Aggregate bond index is down 2.24% so far this year, and the U.S. Aggregate index has lost 1.87% of its value in the same time period.

Perhaps the most interesting thing to notice about America's 20+% stock market returns so far this year--extraordinary by any measure--is that they were accomplished at a time when investors seemed to be constantly skittish. Just a few weeks ago, everybody seemed to be worried that the Federal Reserve would end its QE3 program and let interest rates find their natural balance in the economy. One might wonder why this would be such a scary event, since it is the Fed's economists way of telling us that the U.S. economy is finally getting back on its feet.

What does all this mean for your investments in the final quarter? Who knows? Nobody could have predicted, at the start of the year, with all the hand-wringing over the fiscal cliff and new tax legislation, that we would be standing nine months into 2013 with significant investment gains in the U.S. markets and a resurgence in global investments led by, of all places, Europe.

This much we can predict: the recent uncertainties--the paralysis in Congress, worries about the direction of interest rates and whether the Fed is going to stop intervening in the markets--will give way to new worries and new uncertainties.

But the headlines obscure the fact that investment returns are created the hard way, by millions of people getting up in the morning and going to work and spending their day finding ways to improve American businesses, generate profits, create new products and new markets, day after day.

Whatever ups and downs you will experience--and you WILL experience them, perhaps in the next quarter or the next year--that underlying driver of business enterprises and stock value is constantly working on your behalf. That will be true no matter what the headlines say, no matter how spooked you feel about whatever scary thing is going on in the world.

As always, we appreciate your continued confidence in us. Please feel free to contact us with any questions you may have.

The FAM Team