Morningstar Market Commentary

Q42013

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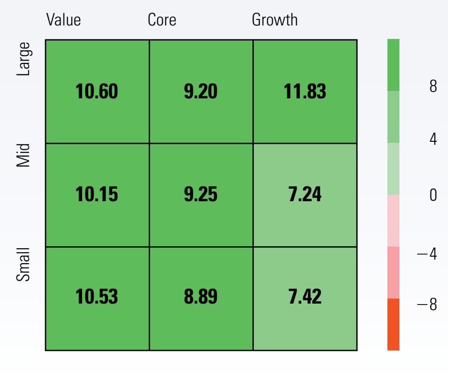
Equities close a record 2013 on a high note as the Fed prepares stimulus tapering.

Q4 2013 Morningstar Market Barometer



	Value	Core	Growth
Large	10.60	9.20	11.83
Mid	10.15	9.25	7.24
Small	10.53	8.89	7.42

Q4 2013 Morningstar Index Returns

Stocks	
US Market Index	10.09
Global Ex-US Index	4.81
Developed Ex-US Index	5.57
Emerging Markets Index	2.03
Bonds	
Core Bond Index	–0.24
Commodities	
Long-Only Commodity Index	–0.18

The year 2013 for stocks proved to be one for the record books as equity markets continued to soar to new heights in the fourth quarter. Despite December's announcement from the Federal Reserve that economic stimulus would begin to be reduced, there was nothing that could stop the yearlong rally in U.S. equities as several market indicators closed at or near all-time highs.

The Morningstar US Market Index staged another double-digit rally in the fourth quarter as stocks surged through a solid, if still unspectacular, earnings season. Companies continue to lap the relatively modest pace that the Street has set, allowing the yearlong bull market to maintain its momentum relatively unabated. However, economic data continued to show signs of modest improvement, triggering a decision by the Federal Reserve to begin a $10 billion monthly stimulus reduction that was a surprise to many. While many viewed the stimulus as the fuel for 2013's torrid rally, markets took the announcement in stride and continued to rise through the proverbial "Santa Claus rally." However, Treasury rates also staged an impressive rally in the quarter, with the 10-year yield eclipsing 3% in late December.

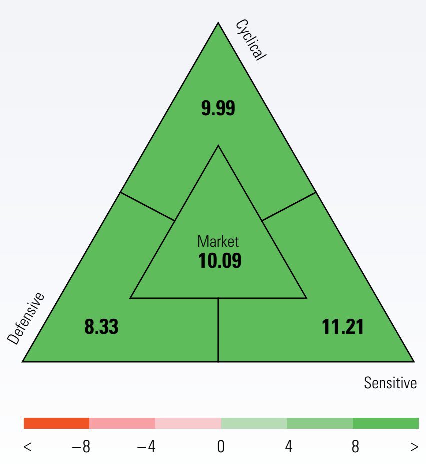
Unlike the third quarter, there were very few major news stories affecting the market in the fourth quarter. What had been a tenuous situation in Syria quickly went dormant during the third quarter, while economic data did little to surprise the market in either direction. Perhaps the biggest news item in the quarter was the announcement that Janet Yellen would be the likely replacement for Ben Bernanke as chair of the Federal Reserve. While many talking heads exchanged barbs regarding Yellen's perceived dovish policy ideology, her candidacy gained traction into the end of the year and ended up having little impact on the market in the quarter.

Investors appear to be taking most news as good news, with most headlines driving markets higher regardless of tone or implication. The strong market sentiment helped the Morningstar US Market Index gain 10.1% in the quarter, giving the index a 33.1% gain for the balance of 2013. While some question the sustainability of the rally moving into 2014, the economy has shown modest improvement in recent months, suggesting the bull market may continue.

Sector Indexes

Despite the Fed's surprise decision in December that it would initiate a taper, the market's rally continued for the duration of the fourth quarter with little resistance. With the geopolitical issues of the third quarter at ease, modest economic data, and a solid holiday season, each of Morningstar's Super Sectors were able to end 2013 on a high note. The Sensitive Super Sector led the way for a second straight quarter, rising 11.21% to close out the year. The Cyclical Super Sector and Defensive Super Sector fell just shy of double-digit gains as well, finishing 2013 with gains of 9.99% and 8.33%, respectively.

Q4 2013 Morningstar Sector Delta and Return %



Sector	Quarter	1-Year	3-Year
Cyclical	**9.99**	**35.75**	**16.14**
Basic Materials	9.95	20.38	6.38
Consumer Cyclical	9.85	42.85	22.77
Financial Services	12.26	42.82	15.43
Real Estate	0.10	1.75	8.86
Sensitive	**11.21**	**31.45**	**14.58**
Communication Svs	10.27	26.28	18.93
Energy	7.52	27.34	11.73
Industrials	13.00	42.03	17.57
Technology	12.13	28.45	13.16
Defensive	**8.33**	**32.68**	**19.34**
Consumer Defensive	8.78	27.95	16.87
Health Care	9.42	42.68	23.94
Utilities	2.87	14.44	11.47

Morningstar Super Sectors

	P/E	P/B	Yield %	Earnings Growth	Sales Growth
Cyclical Super Sector	17.70	2.03	1.75	1.81	–1.96
Sensitive Super Sector	18.33	3.00	2.23	–5.01	5.64
Defensive Super Sector	20.96	3.17	2.23	3.20	6.34

Sensitive Super Sector 11.21%

The Sensitive Super Sector benefited from another strong performance from high-beta stocks in the fourth quarter. Industrial and Technology stocks led the charge in the fourth quarter with gains of 13% and 12.13%, respectively, while several big-name Energy stocks delivered solid contributions as the sector rose 7.52%. The Communication Services sector took the rising interest rates in stride, shaking off a relatively weak third quarter to deliver 10.27% gains in 2013's final stanza.

Several technology stalwarts were on the move in the fourth quarter, including heavyweights Google and Apple, delivering growth of 27.9% and 18.4%, respectively. Both names paled in comparison with Hewlett-Packard, however, as that firm's turnaround trek continued to the tune of 34% in the quarter. Elon Musk's wildly successful 2013 continued as SolarCity ran more than 60% in the quarter, and the 3-D printing stocks all delivered solid performance with 3D Systems leading the way, posting a 72.1% gain to close out the year.

Cyclical Super Sector 9.99%

The Cyclical Super Sector was able to overcome a relatively abysmal performance by the Real Estate sector in the fourth quarter to deliver the second-largest gains among Morningstar's Super Sectors for a second straight quarter. The Cyclical Super Sector was led by a stout rally in the Financial Services sector, as several large-cap banks booked solid gains. Basic Materials and Consumer Cyclical stocks weren't far behind, with each sector delivering gains in the high-single digits.

Credit card companies were standout performers for a second straight quarter, as firms such as Mastercard, American Express, and Visa soared 24.3%, 20.5%, and 16.6%, respectively.
The strength of the Financial Services sector was widespread, as major financial institutions such as Bank of America, JPMorgan Chase, and Wells Fargo each posted double digit gains.
Men's Wearhouse continued to conduct a back-and-forth with Joseph A. Bank regarding a possible merger, helping Men's Wearhouse's stock surge more than 50%.

Defensive Super Sector 8.33%

Although the Defensive Super Sector was the relative laggard in the fourth quarter, the sector still managed to rise more than 32% in 2013 and was the second-best performer among the Morningstar Super Sectors during the year. While Utilities felt the burn from rising interest rates and grew just over 2% in the quarter, Consumer Defensive and Healthcare stocks each rallied about 9% in the year's final months.

Pharmaceutical names were in vogue in the fourth quarter, as Gilead Sciences, AbbVie, and Biogen each posted gains in the high teens. However, not all industry players were as fortunate, as names such as Ariad Pharmaceuticals and Celldex Therapeutics fell more than 60% and 30%, respectively.

Style & Cap Indexes

After Growth stocks easily outperformed Value and Core equities in the third quarter, all three categories were able to post solid gains to round out a strong 2013. The Morningstar US Growth and Value Indexes were neck-and-neck in the fourth quarter, as each index delivered gains of roughly 10.5%. Although the Morningstar US Core Index failed to eclipse double digits, it still managed to rise more than 9%. For the size indexes, Large Cap stocks rebounded after being the relative laggards in the third quarter, rising 10.57%. Meanwhile, Mid Cap and Small Cap stocks closed 2013 by posting gains of roughly 9%.

Trailing Returns

1-Year

	Value	Core	Growth
Large	28.92	34.49	32.46
Mid	42.18	32.79	34.07
Small	35.71	36.31	41.86

3-Year

	Value	Core	Growth
Large	14.14	17.79	16.63
Mid	17.63	16.97	14.89
Small	16.35	14.84	17.12

5-Year

	Value	Core	Growth
Large	13.70	17.55	13.70
Mid	21.72	22.98	22.44
Small	22.73	22.05	22.91

Morningstar Style & Cap Indexes

	P/E	P/B	Yield %	Earnings Growth	Sales Growth
Morningstar Value	14.77	1.79	2.76	–0.35	1.11
Morningstar Core	18.95	2.59	2.00	–9.09	1.69
Morningstar Growth	24.34	4.56	1.51	17.85	12.45
Morningstar Large Cap	18.17	2.66	2.27	5.09	2.44
Morningstar Mid Cap	20.26	2.52	1.53	5.58	5.67
Morningstar Small Cap	20.56	2.27	1.35	–16.38	1.18

Morningstar US Growth 10.6%

High-beta technology stocks were once again a key catalyst for the Growth index, while a number of Financial Services firms made major contributions and the index surged 42.82% during the year. Apple and Google were the top contributors to the index, while e-retailer Amazon enjoyed a solid quarter with gains of 27.56%. Fellow Consumer Cyclical name Walt Disney Company also rallied in the fourth quarter to the tune of 19.93%. Credit card companies such as Mastercard and American Express each eclipsed 20% in gains, while cable services heavyweight Comcast staged a 15.6% rally.

Solar power stocks enjoyed strong years seemingly across the board, and SolarCity was no exception, rising 64.2% in the fourth quarter. The year 2013 also saw a rebirth of merger and acquisition activity, and chatter surrounding a link-up with Priceline helped online travel booking site HomeAway surge more than 45% in the quarter. The fourth quarter was not as kind to Tile Shop Holdings, as the firm's stock fell nearly 40% after fraud allegations were brought to light.

Morningstar US Value 10.5%

Value stocks rose 32.04% in 2013 and were paced primarily by the big banks and a variety of Energy firms in the fourth quarter. Exxon Mobil was the largest contributor to the index once again, rising more than 18% in the fourth quarter, while fellow Energy player Phillips 66 was a top-10 contributor, posting gains of more than 34%. Meanwhile, major banks play a significant role in the index's rise, with JPMorgan Chase and Wells Fargo leading the way with 13.96% and 10.65% growth, respectively. However, the two best performers in the index each came from the Energy sector, as Delek US Holdings and Alon USA Energy each skyrocketed more than 60% to end the year with a bang.

Communication Services firm NII Holdings endured a trying third quarter after the company announced plans to reduce its headquarters staff by 25% in addition to 1,400 layoffs within its operations department, resulting in a 54.7% slump during the fourth quarter. Tower Group International was the index's other major loser, falling more than 51% as a result of accounting discrepancies before ACP announced its intent to purchase the firm at $3 per share.

Morningstar US Core 9.2%

Several Industrials stocks were among the biggest contributors to the US Core Index's solid performance to end 2013 as the index closed the year up 34.21%, best among the style indexes. Boeing continued to shake off the trouble it endured earlier in the year with its Dreamliner jets, and its yearlong rally ended with 16.59% gains in the fourth quarter. Fellow Industrials heavyweight 3M Company rose 18% to end the year, while UPS still managed to rise 15.71% despite enduring a major shipping debacle during the holiday season. Technology bellwether Microsoft was the index's top contributor, rising just over 13%.

A pair of Consumer names were among the Core Index's top performers, as Conn's and Nu Skin Enterprises appreciated 57.29% and 44.75%, respectively, though retailer Express stumbled to the finish line with a loss of 20.86%. The Healthcare sector endured some of the heaviest losses to end the year, with Lexicon Pharmaceuticals and Infinity Pharmaceuticals each falling more than 20%.

Morningstar Large Cap 10.6%
Large Cap stocks staged a worst-to-first reversal between the third and fourth quarters and closed the year up 31.81%, driven by a number of household names across several sectors. Tech juggernauts such as Apple, Google, and Microsoft each delivered solid quarters, while big banks Bank of America, JPMorgan Chase, and Wells Fargo all found their way into the top-10 contributors list. Energy stocks were the big winners, however, as Exxon Mobil was the second leading contributor with 18.43% gains, while Valero, Marathon Petroleum, and Phillips 66 were the top three performers for the entire index, posting gains well over 30%.

Mining stocks continued to bear the brunt of what selling could be found in the quarter, as Newmont Mining suffered the largest losses in the index at 17.34%. Real Estate was also a sore spot amid rising Treasury rates as Health Care REIT Inc. fell 13.05%. Finally, professional social network giant LinkedIn struggled to find its footing in the fourth quarter following modest earnings, slipping nearly 12%.

Morningstar Small Cap 8.9%
The Small Cap Index finished 2013 up 37.91%, tops among the size indexes, and it was dominated by Industrials names from a variety of backgrounds in the fourth quarter, as these stocks composed six of our top 10 contributors. Rental car giant Avis Budget Group surged more than 40% in the quarter to lead the group, while Spirit AeroSystems Holdings, Huntington Ingalls Industries, and Generac Holdings each rose more than 30%. However, the index's top contributor came from the Healthcare sector with Incyte Corp. rising more than 32% as the firm received positive phase II trial results on its myelofibrosis treatment.

Despite a relatively weak quarter from the Real Estate sector, Northstar Realty Finance was able to outperform its peers by generating 48.13% growth in the quarter after announcing it would be spinning off its asset management arm. Conversely, Acacia Research Corporation severely underperformed its fellow Industrials firms, falling more than 35%.

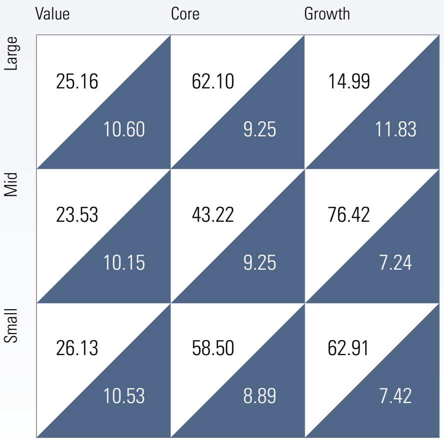
Morningstar Mid Cap 8.9%
The Mid Cap Index closed 2013 up 36.29% as the Technology sector was responsible for a number of top contributors in the fourth quarter. 3-D printing stocks were on fire for most of the year, and 3D Systems proved to be among the best in breed in the fourth quarter, rising 72.12% as the list's top performer. A pair of component manufacturers were the index's top contributors as Micron Technology and Western Digital Corporation rose 24.51% and 32.82%, respectively. Netflix continued an impressive year despite activist investor Carl Icahn unloading a significant portion of his shares, closing 2013 with 19% gains. Several casino stocks also enjoyed strong finishes, including a 25.92% rise in the shares of Wynn Resorts.

While a number of high-beta names enjoyed strong fourth quarters, Elon Musk's electric car manufacturer Tesla struggled to close the year, falling 22.2% after a meteoric rise for much of 2013. A pair of pharmaceutical names limped to the finish line as Ariad Pharmaceuticals and Pharmacyclics fell 62.94% and 23.49%, respectively.

Fund Categories and Benchmarks

In the fourth quarter of 2013, Large Growth active managers were least successful at beating their benchmark index, with only about 15% outperforming the Morningstar Large Growth Index. Mid Growth managers had the lowest hurdle, with the Morningstar Mid Cap Growth Index returning 7.24%, and 76.42% of managers in that group outperformed. Value-oriented managers across the Market Cap Bands (Large, Mid and Small) had limited success, with about a quarter of them beating their benchmark. In general, managers in the Core of the Style Box performed roughly in-line with their benchmark, the Morningstar US Core Index.

Active vs. Passive



	Value	Core	Growth
Large	25.16 10.60	62.10 9.25	14.99 11.83
Mid	23.53 10.15	43.22 9.25	76.42 7.24
Small	26.13 10.53	58.50 8.89	62.91 7.42

◸ Actively managed mutual funds outperforming their respective benchmark (%)[1]

◢ Index Returns (%), Q4

[1] Includes the oldest share class for all U.S. diversified mutual funds with at least a one-year history. As of December 31, 2013 there were 2,126 eligible funds. Morningstar classifies funds into style categories based on the average style score (using the same 10-factor methodology as underlying benchmarks) of all available portfolio holdings over a three-year period.

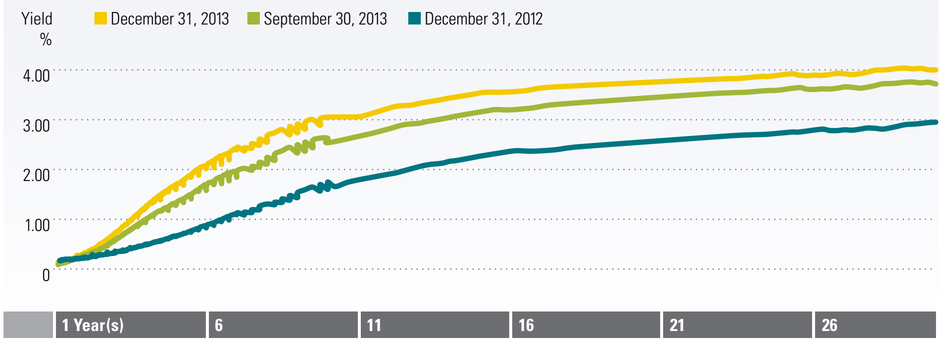
Fixed-Income Indexes

Corporate bonds recaptured some of their losses sustained earlier in the year, but fourth-quarter gains were not enough to lift the index into positive territory. The Morningstar Corporate Bond Index rose 1.10% in the fourth quarter, but ended 2013 with a 1.50% loss. Tightening credit spreads helped corporate bonds offset some of the losses generated by rising rates in 2013, as our US Government Bond Index declined 2.74% last year. For 2014, we expect that the bond markets will struggle to return much above break-even as interest rates appear to be headed higher and credit spreads are at their tightest levels since before the credit crisis.

Rising Interest Rates in 2013 Lead to Losses in Fixed Income

Rising interest rates have taken their toll on the fixed-income markets in 2013. The Morningstar Core Bond Index—our broadest measure of the bond market—declined 0.24% in the fourth quarter and lost 1.89% in 2013. The yield on the 10-year Treasury rose 41 basis points in the fourth quarter to 3.03%, its highest yield since July 2011. For the year, the yield on the 10-year has risen a total of 127 basis points. Investors in the long-term segment of the yield curve suffered the greatest losses, as indicated by the Morningstar Long Term Core Bond Index, which declined 0.51% in the fourth quarter and lost a total 6.88% last year. Only those fixed-income investors who kept their duration short were able to generate positive returns. Morningstar's Short Term Core Bond Index rose 0.18% last quarter and a total of 0.57% for the year.

Treasury Yield Curve



Morningstar Bond Indexes

		Returns		Statistics			
		QTR	YTD	Market Value ($Mil)	Credit Quality	Yield to Maturity	Average Duration
Broad Market	Core Bond	–0.24	–1.89	14,175.00	AA	2.39	5.35
Sector	US Government	–0.78	–2.74	6,154.00	AAA	1.42	4.77
	Corporate	1.10	–1.50	3,388.00	A–	3.2	6.23
	Mortgage	–0.55	–0.73	4,515.00	AAA	3.16	5.57
Maturity	Short–Term Core	0.18	0.57	4,541.00	AA	0.72	2.2
	Intermediate Core	–0.43	–1.07	6,915.00	AA+	2.82	5.29
	Long–Term Core	–0.51	–6.88	2,678.00	A+	4.12	10.82
Inflation Prot. Secs.	TIPS	–2.08	–8.52	761.00	AAA	0.15	7.48
Global Sovereign	Global Govt USD	–0.94	–3.55	20,594.00	AA–	1.59	6.52
	Global Govt ex–US USD	–1.03	–3.95	14,393.00	AA–	1.65	7.24
	Eurozone EUR	1.35	2.41	6,756.00	A+	2.11	6.19
	Swiss CHF	–0.71	–4.26	96.00	AAA	0.84	8.24
	UK GBP	–1.43	–4.47	1,744.00	AA+	2.56	9.27
	Australasian USD	–3.88	–11.68	283.00	AAA	3.63	4.97
	Canadian CAD	–0.23	–2.48	366.00	AAA	2.01	6.32
	Japanese JPY	0.22	2.24	5,148.00	A+	0.64	8.11
Europe	Eurobond Corp EUR	0.84	1.94	1,268.00	AAA	1.9	4.39
	European Bank Capital EUR	1.66	3.91	445.00	AAA	2.22	4.01
	European Covered EUR	1.44	3.56	757.00	AA–	1.55	4.08
	UK Eurobond Corp GBP	0.03	0.75	221.00	AAA	3.92	8.36
	UK Bank Capital GBP	1.60	5.08	49.00	AAA	4.35	5.47
Emerging Market	Composite USD	1.06	–4.39	103,251.00	BB	6.41	5.61
	Sovereign USD	0.86	–3.40	39,539.00	BBB–	5.49	6.81
	Corporate USD	1.20	–2.81	62,955.00	BBB+	4.87	5.23

Data as of December 31, 2013

Even though the Fed is beginning to taper its asset-purchase program, it will continue to provide a substantial amount of new liquidity into the markets in 2014. If the Fed continues to reduce purchases at its current pace, the program would last until September 2014, and over this time frame the Fed would purchase another $330 billion of securities, taking its portfolio to more than $4.3 trillion. As the Fed removes mortgage-backed securities and long-term Treasury bonds from the market, investors have increasingly fewer fixed-income assets from which to choose. This decrease in supply is becoming even more pronounced as the U.S. government's deficit is shrinking, requiring less new debt issuance. This has had a favorable impact on demand for corporate bonds, and has pushed credit spreads tighter as the supply of available fixed-income securities constricts and the new Fed-provided liquidity looks for a home. The average credit spread in the Morningstar Corporate Bond Index ended 2013 at +120, its tightest level since the 2008–09 credit crisis, and is now as tight as it has been since July 2007.

While emerging-market indexes rebounded in the fourth quarter, the gains were not nearly enough to offset the rout those markets suffered earlier this year. Morningstar's Emerging Market Composite Bond Index rose 1.06% last quarter, although for the year it has declined 4.39%. The Emerging Market Sovereign Bond Index gained 0.86%, and the Emerging Market Corporate Bond Index gained 1.20% in the fourth quarter, but those two indexes have lost 3.40% and 2.81%, respectively, in 2013.

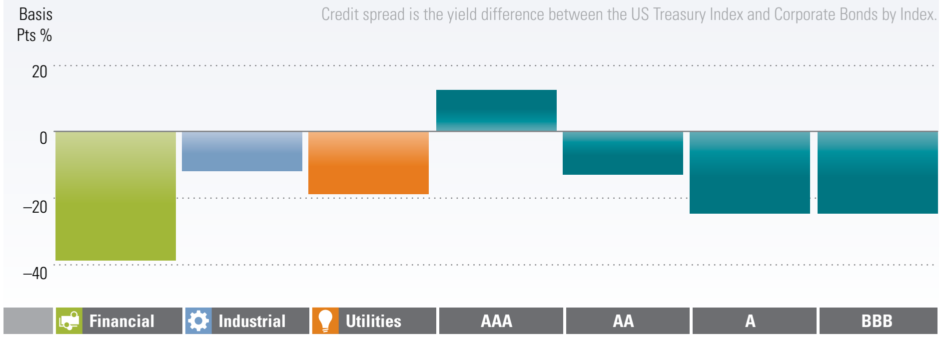
Returns in 2014 Will Be Constrained by Tight Credit Spreads and Rising Interest Rates

In our base-case scenario, the corporate bond market will likely struggle to return much above break-even in 2014. With interest rates poised to rise further and credit spreads at their tightest levels since the end of the 2008–09 credit crisis, we expect rising rates to largely offset the current yield corporate bonds currently offer.

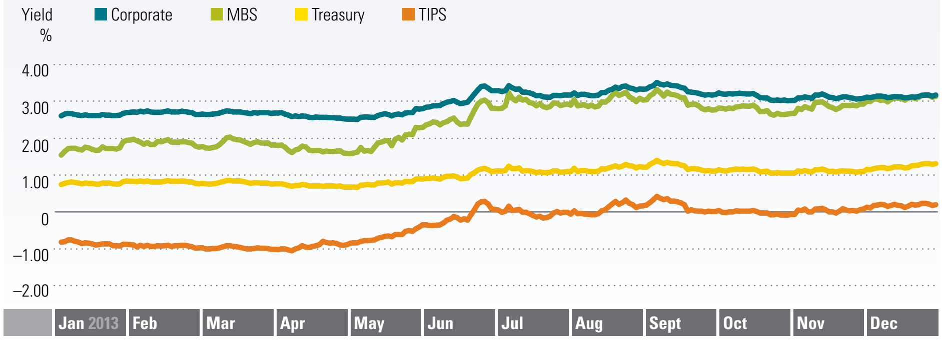
We expect interest rates to continue to normalize toward historical metrics. Three of the metrics we watch are the spread between inflation and interest rates, the steepness of the Treasury curve, and inflation expectations. Historically, the yield on the 10-year Treasury bond has averaged 200 to 250 basis points over the inflation rate. Even at the currently low inflation rate of 1.2%, the yield on the 10-year Treasury could increase to 3.20% to 3.70% to reach historical norms. Currently, the spread between the two-year and 10-year Treasury bond is near its widest levels. Since the two-year bond is highly correlated to short-term interest rates, and the Federal Reserve is planning on keeping the Federal Funds rate near zero until sometime in 2015, the yield of the two-year Treasury bond should be well-anchored. Based on where this spread has historically peaked, it appears that the 10-year yield could increase up to another 30 basis points over the two-year.

After peaking in November 2012, market-implied inflation expectations have been declining. Currently, inflation expectations are near the middle of their historical range, which should have a moderating effect on how high interest rates would rise. Unfortunately for investors in Treasury Inflation-Protected Securities, or TIPS, declining inflation expectations reduced the value of their holdings. The Morningstar TIPS Index declined 2.08% in the fourth quarter and 8.52% for the year.

Credit Spread Change by Sector and Quality



US Bond Indexes: Average Yields



Credit Risk Outlook Appears Benign in Short Term, but Risks Remain

Throughout 2013, we have highlighted that idiosyncratic risk leading to downgrades and issuer-specific credit-spread widening brought the greatest threat to corporate bond investors. Considering that Robert Johnson, our director of economic analysis, expects GDP growth in 2014 between 2.0 and 2.5%, we don't foresee a material increase in defaults or cash flow compression resulting from a recession, which could push spreads wider. As such, we expect idiosyncratic credit risk to once again be the greatest determinant of differentiated returns. However, we don't believe that idiosyncratic risk will be any greater in 2014 than in 2013. As interest rates rise, debt-funded share buybacks become less attractive. In addition, with the increase in equity valuations, elevated enterprise valuation/EBITDA multiples are limiting the prospects for M&A activity and leverage buyouts.

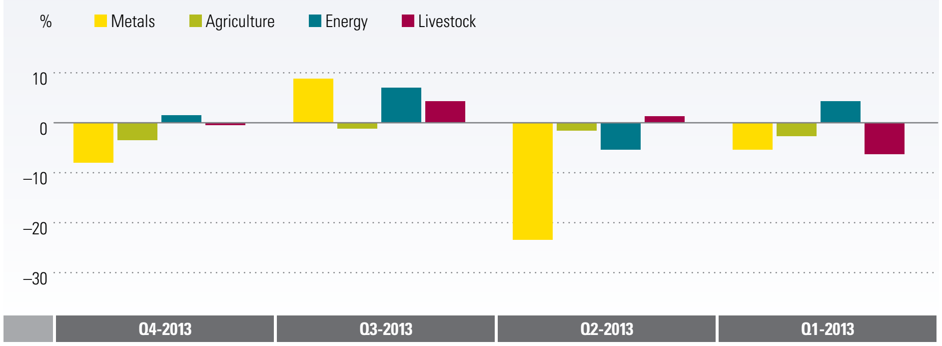
Commodities Indexes

After commodities staged a modest reversal in fortune in the third quarter, the majority of the Morningstar Commodity Indexes finished the year in the red once again. The Morningstar Metals Index endured the most pain of the indexes, falling 7.8% and giving up most of the third quarter's gains as precious metals prices continue to slide. The Morningstar Agriculture Index fell 3.4%, while the Morningstar Livestock Commodity Index was down slightly at 0.48%. The only winner in the quarter was the Morningstar Energy Commodity Index, rising 1.41% and maintaining some of the momentum from the third quarter resulting from tensions in Syria.

The Morningstar Metals Index continues to be affected most heavily by the yearlong decline in precious metals, particularly from gold and silver as inflation remains sparse in the U.S. economy. Gold prices resumed the precipitous fall that persisted for most of 2013, tumbling more than 6% in the fourth quarter. Silver prices took a hit as well, falling roughly 8% to end the year. Copper continued its modest bounce from the third quarter, rising roughly 3% to close out the year on a positive note.

Energy prices generated some momentum in the third quarter as a heated situation in Syria led to spikes in oil prices. However, that momentum quickly subsided in the fourth quarter, as most energy prices took a hit. WTI Crude gave back most of its gains from the third quarter, falling 4.1% to under $100 to end the year. However, natural gas staged an impressive rally in the fourth quarter, rising roughly 25% to finish 2013.

Quarterly Commodity Sector Returns



Morningstar Commodity Index Returns %

	Quarter	1–Year	3–Year	5–Year	10–Year	YTD
Long-Only	–0.18	–3.75	–1.88	7.14	6.15	–3.75
Long/Flat	–0.60	–2.12	–2.77	2.82	6.83	–2.12
Long/Short	1.86	5.20	–1.80	0.64	5.73	5.20
Short/Flat	2.57	7.50	0.93	–1.92	0.43	7.50
Short-Only	1.09	3.17	–1.45	–8.68	–5.40	3.17
Agriculture	–3.40	–8.34	–3.28	6.96	4.23	–8.34
Energy	1.41	7.03	2.03	2.43	0.32	7.03
Livestock	–7.80	–26.92	–7.45	9.88	14.10	–26.92
Metals	–0.48	–1.48	–2.43	–1.22	0.98	–1.48

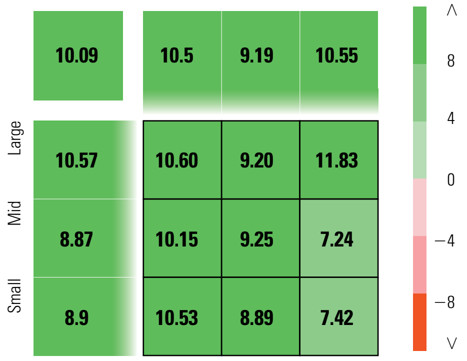
Market Commentary Conclusion

The past year has proved to be one to remember, with several stocks and indexes making and breaking all-time highs on numerous occasions, and with many equity indicators closing 2013 at their highest levels all year. Entering 2014, many will question whether the consistent bull market staged in 2013 was legitimate or whether it was synthetic, pumped up on economic stimulus with a relatively mediocre underlying economy. If economic data continues to show improvement and tapering picks up in earnest, some of those questions may begin to be answered.

The year 2013 was marked by incredible runs in several initial public offerings and other relatively new issues in industries that have burst onto the scene. 3-D printing and solar power stocks enjoyed impressive runs across the board, while social networking stocks such as Facebook and Twitter soared to new heights. The IPO market picked up a considerable amount of steam in 2013 as well, creating an environment that will perhaps create similar activity in 2014.

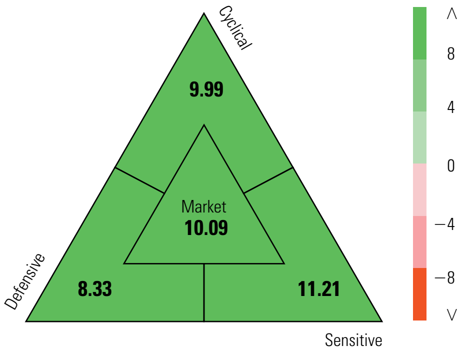
The first quarter will likely see the confirmation of Janet Yellen as chair of the Federal Reserve. Though many have suggested that her policies may be even more dovish than her predecessor's, it remains to be seen how Yellen will handle the drawdown on the Fed's asset-purchasing program. While it appears that better economic data could push equities higher in the face of a taper based on December's announcement and subsequent action, the stimulus program and its reduction remain the major wild card for 2014. Beyond that, the usual policy issues such as debt ceiling and budget debate will likely have an impact on the markets at various points throughout the year as the proverbial "kicking of the can" rages on in lieu of a grand bargain.

Q4 2013 Style Indexes



	Total Returns %								
	3–Month	1–Year	3–Year	5–Year	10–Year	Price/ Earnings	Price/ Book	Yield %	5–Yr Earn Growth
Morningstar US Market	**10.09**	**33.13**	**16.27**	**18.73**	**8.10**	**18.65**	**2.60**	**2.07**	**6.90**
Large Cap	10.57	31.81	16.19	17.30	7.24	18.17	2.66	2.27	10.10
Mid Cap	8.87	36.29	16.52	22.41	10.26	20.26	2.52	1.53	15.01
Small Cap	8.90	37.91	16.09	22.58	10.11	20.56	2.27	1.35	6.90
US Value	10.50	32.04	15.00	15.93	7.50	14.77	1.79	2.76	9.49
US Core	9.19	34.21	17.45	18.97	9.10	18.95	2.59	2.00	14.97
US Growth	10.55	33.34	16.34	21.41	7.41	24.34	4.56	1.51	6.82
Large Value	10.60	28.92	14.14	13.70	6.38	14.74	1.85	2.87	12.10
Large Core	9.20	34.49	17.79	17.55	8.61	18.24	2.59	2.20	14.81
Large Growth	11.83	32.46	16.63	20.94	6.35	23.18	4.74	1.82	8.31
Mid Value	10.15	42.18	17.63	21.72	10.29	14.58	1.67	2.47	13.02
Mid Core	9.25	32.79	16.97	22.98	10.20	21.41	2.69	1.56	16.58
Mid Growth	7.24	34.07	14.89	22.44	10.04	28.84	4.23	0.64	9.31
Small Value	10.53	35.71	16.35	22.73	10.59	15.65	1.57	2.41	9.92
Small Core	8.89	36.31	14.84	22.05	10.04	21.19	2.33	1.07	8.10
Small Growth	7.42	41.86	17.12	22.91	9.48	29.54	3.79	0.55	11.55

Q4 2013 Sector Indexes



	Total Returns %								
Index	3–Month	1–Year	3–Year	5–Year	10–Year	Price/ Earnings	Price/ Book	Yield %	5–Yr Earn Growth
Cyclical	**9.99**	**35.75**	**16.14**	**19.13**	**3.42**	**17.70**	**2.03**	**1.75**	**8.63**
Basic Materials	9.95	20.38	6.38	18.22	8.18	20.12	2.83	2.46	10.24
Consumer Cyclical	9.85	42.85	22.77	29.41	9.51	19.96	4.04	1.22	13.94
Financial Services	12.26	42.82	15.43	14.53	1.00	15.15	1.36	1.45	9.00
Real Estate	0.10	1.75	8.86	16.28	7.75	23.29	2.02	4.67	6.44
Sensitive	**11.21**	**31.45**	**14.58**	**18.28**	**8.43**	**18.33**	**3.00**	**2.23**	**10.56**
Communication Svs	10.27	26.28	18.93	22.97	10.07	15.81	2.78	2.79	11.53
Energy	7.52	27.34	11.73	18.19	15.96	15.10	2.07	1.98	7.73
Industrials	13.00	42.03	17.57	20.15	9.41	21.20	3.49	1.61	11.12
Technology	12.13	28.45	13.16	21.62	7.62	18.62	3.56	2.62	12.43
Defensive	**8.33**	**32.68**	**19.34**	**15.62**	**7.77**	**20.96**	**3.17**	**2.23**	**8.85**
Consumer Defensive	8.78	27.95	16.87	16.15	10.06	19.81	3.80	2.54	9.43
Health Care	9.42	42.68	23.94	19.36	9.12	22.56	3.67	1.58	9.25
Utilities	2.87	14.44	11.47	10.69	9.20	18.96	1.58	4.06	5.16

Bond Indexes

	3–Month	1–Year	3–Year	5–Year
Core	–0.24	–1.89	3.41	4.23
US Government	–0.78	–2.74	2.75	2.20
Corporate	1.10	–1.50	5.29	8.19
Mortgage	–0.55	–0.73	2.98	4.07
Short-Term	0.18	0.57	1.53	2.44
Intermediate Term	–0.43	–1.07	3.35	4.35
Long-Term	–0.51	–6.88	5.90	6.20
Global Government ex. US	–1.03	–3.95	0.92	2.38
Emerging Markets Composite	1.06	–4.39	4.49	11.68

Commodity Indexes

	3–Month	1–Year	3–Year	5–Year	10–Year	15–Year
Long-Only	–0.18	–3.75	–1.88	7.14	6.15	10.36
Long/Flat	–0.60	–2.12	–2.77	2.82	6.83	9.69
Long/Short	1.86	5.20	–1.80	0.64	5.73	9.42
Short/Flat	2.57	7.50	0.93	–1.92	0.43	1.84
Short-Only	1.09	3.17	–1.45	–8.68	–5.40	–6.52
Agriculture	–3.40	–8.34	–3.28	6.96	4.23	3.15
Energy	1.41	7.03	2.03	2.43	0.32	11.92
Livestock	–0.48	–1.48	–2.43	–1.22	0.98	3.35
Metals	–7.80	–26.92	–7.45	9.88	14.10	11.86

All data in this issue as of 12-31-2013