STRATEGIC FINANCIAL SERVICES

Thursday's Stock *AND* Bond Market Sell-Off

MARKET UPDATE
June 20, 2013

What was the News?

Somewhat unexpectedly, Fed Chairman Bernanke signaled an intention to slow down the pace of monetary stimulus.

The Punchbowl: Signs of an improving economy could lead to an early end to a party fueled by the Fed.

- An improving economy would normally be good for stocks but artificial stimulus has distorted fundamentals. In addition, the credit market in China is buckling.

How did the Markets react?

As illustrated in the charts to the right, we are in the midst of a minor pullback in both of the major asset classes.

Stocks: After a 200 points sell-off yesterday, the DJIA fell by 353 points (2.34%) today, but is still up over 10% on the year.

Bonds: The Barclays Aggregate Gov't/ Credit Index continued its recent sell-off and is now down ~2.5% on the year, a rarity for the traditional fixed income markets.

Why?

The Fed triggered a partial unwind of the multi-year, multi-asset class misallocation of capital that has been caused by artificially low rates.

Utilities and *REITS:* Higher-yielding stocks benefitted from a reach for yield that is now reversing course as rates recover.

Long-term Bonds: With little return potential, the risks of this overpriced asset class were finally exposed by rising rates.

Commodities and *Precious Metals* continued to sell-off because they are priced in dollars that are rallying and used as an inflation hedge, a threat that is off the table…for now.

Emerging Markets are now down over 12% on the year as the strength of the U.S. dollar, rising interest rates, commodity weakness and China's woes are causing an outflow of capital.

Client Positioning and Outlook

Stocks: As readers of *Strategic Insights* may have noted, Strategic took advantage of all-time stock market highs to rebalance portfolios in anticipation of a pullback.

- Portfolios now have a neutral to underweight equity allocation vs. long-term targets.
- We are looking at adding exposure to emerging markets (a big laggard with attractive valuations) and international stocks (another laggard starting to enter our price range).
  - After trimming the leading asset class (U.S. stocks) over the past few months, we now have room to redeploy that capital to more attractively valued segments of the market on the sell-off.

Outlook: With valuations reasonable and the economy starting to grow, we don't believe that the sell-off will extend beyond another 3-5% before resuming the longer-term uptrend.

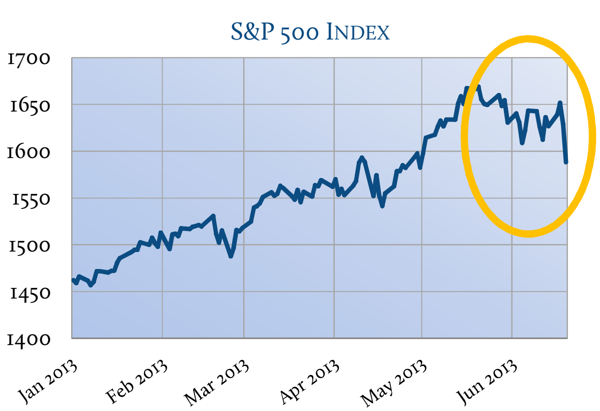
Bonds: Strategic has been preparing for this environment for years by maintaining a relatively defensive position in our core bond portfolio:

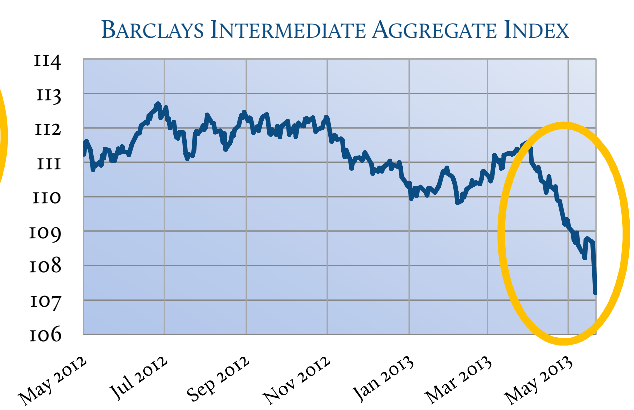
- Intermediate-to-short duration laddered portfolio structure (1-10 years)
- No premiums
- Limited credit risk

Outlook: After several years of gains, losses can still of course occur in bond portfolios, but we believe that the recent damage will be contained as the economy won't gap higher and inflation is tame.

Real Return Assets: We have neutral allocations to two areas of the market that have come under significant pressure recently: commodities and precious metals.

Outlook: While we believe that they these assets are an excellent hedge in a diversified portfolio, we will wait for the downtrend to reverse before deploying additional client capital to the space.





Source: Bloomberg

About Strategic

Founded in 1979, Strategic is a leading investment and wealth management firm managing and advising on client assets of $850 million. Our goal is to produce attractive long-term returns in support of client objectives. A repeatable process managed within a culture of disciplined risk management defines our decision making framework.

Investment Team

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For additional information on Strategic' s investment team, financial advisors and client support professionals, please visit us at: www.investstrategic.com/our-team/

Portfolio Management

STRATEGIC *Asset Allocation*

Strategic's *Core/Satellite* approach to asset allocation produces customized, cost-efficient portfolios that properly reflect the risk and return objectives of our clients.

The firm's *Growth, Equity Income* and *Fixed Income* strategies are managed in-house to form the core of client portfolios. Select satellite strategies are then added to improve diversification and risk-adjusted returns.

STRATEGIC *Growth*

*Objective: A*chieve superior risk adjusted returns and long-term capital appreciation by investing in reasonably priced companies believed to have above-average potential for sustainable earnings growth.

STRATEGIC *Equity Income*

Objective: Maximize total returns by investing in companies trading below intrinsic value with attractive yields and a history of dividend increases, or the potential to grow them in the future.

STRATEGIC *Fixed Income*

Objective: Preserve capital while generating highly secure returns through exposure to high -quality, individually purchased bonds within a laddered portfolio structure.