WINFIELD
ASSOCIATES

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Customized Investment Portfolios and Private Wealth Advisory Services

MARKET COMMENTARY

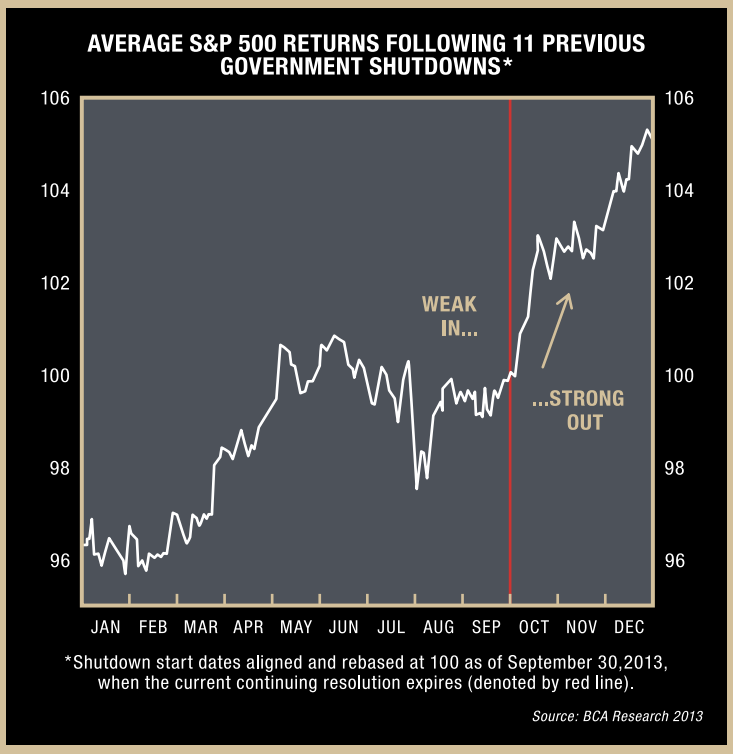
In our July 2013 *Market Commentary*, we focused primarily on interest rates and the possibility of a "tapering" of the Federal Reserve's bond purchasing program. When Federal Reserve Chairman Ben Bernanke mentioned in May that this could begin as early as September of 2013, bond yields spiked, and bond and stock prices fell dramatically.

As such, Dr. Bernanke's presentation on September 18 was a startling event for most market prognosticators. The highly anticipated beginning of the FOMC's "tapering" was pushed out for at least another quarter and the equity markets responded positively, moving to all time highs. Meanwhile, yields on the 10-year Treasury fell slightly and have hovered in the range of 2.6 – 2.7%. The question of who will succeed Chairman Bernanke was clarified on October 9 with the nomination of Federal Reserve vice chairwoman Janet Yellen. Dr. Yellen's appointment is subject to Senate approval but is generally thought to be highly likely. Dr. Yellen has favored an easy monetary policy and will probably extend the Fed's quantitative easing program and encouraging the purchase of housing and higher-risk assets.

Even with the monetary policy announcement bolstering the market, the relatively turbulent period of foreign affairs caused some volatility during the third quarter. Syria was the focus of international relations. Although the Syrian crisis has been in progress since early 2011, the violence escalated on August 21 when President Bashar al-Assad allegedly used chemical weapons on Syrian civilians. As more evidence of these attacks came to light, United States involvement seemed increasingly likely and the markets reacted accordingly, reaching a low for the quarter in late August. Seemingly at the last minute, President Obama agreed to a diplomatic solution of chemical weapon disarmament and the markets recovered.

Going into the fourth quarter, the markets' focus has turned away from Syria and the Middle East to being preoccupied with Washington and domestic politics. On October 1, the US government "shut down" reacting to a failure by congressional parties and the president to agree on a continuing resolution to maintain daily government services. The consequences of the shutdown are controversial and involve the government's ability to issue debt, pay interest on Treasury bonds as well as paying for the myriad of government expenses and services. Failure to come to budgetary agreements caused the initial shutdown, but the more pressing concern is the debate over the debt ceiling and expenditure reduction. Throughout the year, politicians have disagreed about how to balance the funding of government operations and the increasing national debt– the current ceiling is $16.7 trillion. On August 26 the Treasury announced that if no agreement is reached, the United States would default on its debt in mid-October. This date was later revised to October 17.

US Government shutdowns are not particularly uncommon. There have been 17 separate shutdowns since 1976, with the most recent in 1996. The average duration was 6 days; the longest was 21 days. The chart shows how the shutdowns have affected the S&P 500 in the past. For the most part the financial markets have performed well following shutdowns and this may be the reason the markets haven't had a major sell-off (more than 10% from its recent peaks). However if there is a default, the Treasury will stop paying interest and issuing debt, causing significant chaos in all financial markets. The probability of this sequence of events is unlikely. Cash inflow from income and payroll taxes are multiples higher than interest expense and should be well covered and a high priority.



Considering the political nature of the latest twist for the markets, a resolution of the impasse should be positive and an expectation of improvement is documented in the chart. From a fundamental view we expect more upside in equities. US economic indicators such as payroll claims, ISM new orders, housing starts and prices and automobile sales, all point to a continuing growth. Global indicators are also strengthening. China's PMI is staying above 50 and the euro zone's composite is at new high over the past two years. Third quarter earnings for the most part will be at record levels, even though estimates have been lowered from the beginning of the quarter. Forecasts for the fourth quarter show an acceleration that carries into 2014. *(Continued on back)*

(Continued from front)

We believe that we are already relatively well positioned going forward. Despite the news from the Fed, we expect interest rates to return to historical averages in time. We still believe it is important to maintain fixed-income positions, but are limiting interest rate risk by using securities with a short duration. Improving conditions abroad (specifically Europe and China) have prompted us to begin moving towards a larger international allocation. The general consensus among analysts is that the market will close this year at record highs, and we are poised to take advantage of this opportunity.

INDIVIDUAL RETIREMENT ACCOUNT LIMITS FOR 2013

- **The deduction for taxpayers** making contributions to a traditional individual retirement account (IRA) is phased out for singles and heads of household who are covered by a workplace retirement plan and have modified adjusted gross incomes (AGI) from $59,000 to $69,000, up from $58,000 to $68,000 in 2012.
- **For married couples filing jointly,** in which the spouse who makes the IRA contribution is covered by a workplace retirement plan, the AGI phase-out range is $95,000 to $115,000, up from $92,000 to $112,000.
- **For an IRA contributor who is not covered by a workplace retirement plan** and is married to someone who is covered, the deduction is phased out for couples with AGI from $178,000 to $188,000, up from $173,000 to $183,000.
- **For a Roth IRA,** the AGI phase-out range for taxpayers making contributions is $178,000 to $188,000 for married couples filing jointly, up from $173,000 to $183,000 in 2012. For singles and heads of household, the income phase-out range is $112,000 to $127,000, up from $110,000 to $125,000. For a married individual filing a separate return who is covered by a retirement plan at work, the phase-out range remains $0 to $10,000.

REQUIRED MINIMUM DISTRIBUTION

Individuals are generally required to withdraw a minimum amount of money from tax–advantaged retirement accounts each year beginning the calendar year after turning 70½. This amount is called a Required Minimum Distribution (RMD). Individuals must take RMDs from any retirement account that included tax–deferred assets or had tax–deferred earnings. These accounts include:

- Traditional IRAs
- SIMPLE IRAs
- Most Keogh accounts
- Rollover IRAs
- SEP–IRAs
- Most 401(k) and 403(b) plans

Annual RMDs may be taken in one distribution or periodic withdrawals throughout the year, but the total annual minimum amount must be withdrawn by the deadline of December 31. Of note, individuals can always take more than the RMD amount. Please contact us if you have questions.

CLIENTVIEW WEB PORTAL

Winfield's ClientView serves as your financial hub. Clients can upload wills, trusts, insurance policies, and other critical financial documents and view them in a completely secure environment. Cloud-based technology ensures that clients can access all of their important financial information in one place from anywhere with internet access. Our platform allows clients to gain a better understanding of their investments by providing performance and asset allocation information that is not available through traditional brokerage websites. We strongly encourage any clients or prospective clients who are interested in this tool to call for further information.

MARKET PERFORMANCE

	3Q 2013	2013 YTD
Dow Jones	2.1%	17.6%
S&P 500	5.2%	19.8%
Nasdaq	11.2%	26.1%
Russell 2000	10.2%	27.7%
MSCI EAFE	11.4%	13.8%
Barclays Agg	0.6%	-1.9%

WHEN TO WORK WITH WINFIELD

PRIVATE INDIVIDUAL INVESTORS

- Manage accumulated wealth, inheritances and settlements to meet investment objectives

ENDOWMENTS AND FOUNDATIONS

- Manage assets with a long-term growth strategy while meeting investment policy requirements

BUSINESS OWNERS

- Customize investment portfolios to meet investment objectives and lessen risk of concentrated assets
- Defer taxable earnings in profit sharing plans
- Manage and advise 401(k) plans

BUSINESS PROFESSIONALS

- Customize investment portfolios, manage stock options and consolidate 401(k)/IRA plans to meet investment objectives and lessen risk of concentrated assets

RETIREES

- Customize investment portfolios to meet investment objectives with the option of drawing income
- Management of IRAs, trusts and taxable accounts

www.winfieldinc.com

700 West St. Clair Avenue, Suite 404 • Cleveland, OH 44113

(216) 241-2575 • (888)322-2575 • fax: (216)241-4774