WINFIELD
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Winfield Quarterly

July 2013

Customized Investment Portfolios and Private Wealth Advisory Services

MARKET COMMENTARY

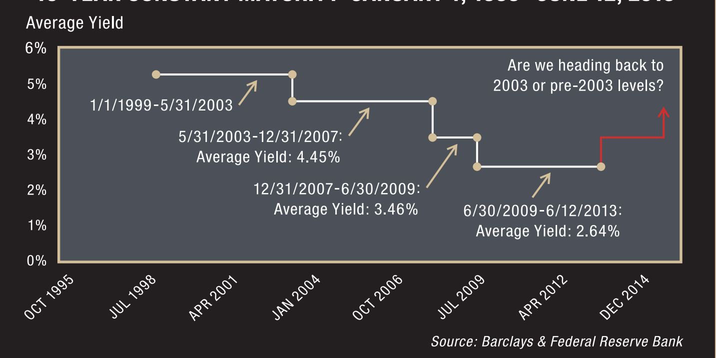
The financial markets sold off broadly in May and June on speculation that the Federal Reserve Bank would soon begin to pull back its accommodative policies. Federal Reserve Bank Chairman Ben Bernanke spoke before the Joint Economic Committee of Congress on May 22, stating that the central bank could possibly begin to downsize its $85 billion a month bond-buying program in the next few meetings. After his mention of possibly slowing (now referred to as "tapering" by the financial media) and eventually ending the Federal Reserve's bond purchasing program, which expands the money supply and lowers interest rates, bond markets traded sharply lower. The yield of the 10-year Treasury bond rose 35% from 1.85% at the end of the first quarter to 2.50% at the end of June. During the quarter, Treasury Inflation-Protection Securities (TIPS) sold-off 7%, and the 30-year conventional fixed mortgage interest rate increased from 3.57% at the end of March to 4.46% on June 30. The Barclays Capital Aggregate Bond Index, which is a broad-based index that includes most U.S. traded investment grade bonds, fell -2.3% for the quarter. As we predicted in our April 2013 Market Commentary, "An indication of Fed tightening, such as higher interest rates and a shrinking of the money supply, could cause a sharp reaction."

Bernanke's speech in all likelihood marked the end of the decades-long bond bull market. The Fed's Quantitative Easing purchases, which began in 2009 as a result of the Great Recession, extended and exaggerated the downward movement in interest rates. Even though bond prices trend down as yields increase, we believe there is a fundamental role for bonds in portfolio management even in a rising rate environment. Market and geopolitical uncertainty can serve as powerful reminders of the benefits of a fixed income portfolio anchor. Over time, bonds have provided capital preservation, growth, income, lower volatility, and low equity correlations which are essential goals for many investors.

Importantly, bond investors now seek a level where interest rates stabilize. The graph to the right illustrates that since the Great Recession, the average yield of the 10-year Treasury was 2.64%. Without Fed intervention going forward, we anticipate that yields could rise in the relatively near-term to 2003 levels, which averaged 3.46% between January 2008 and July 2009.

The rapid leap in interest rates roiled global equity markets. The S&P 500, the Dow Jones Industrial Average and the NASDAQ which rose to multi-year highs in May, all fell sharply through the end of the second quarter. The MSCI Europe, Australasia, and Far East Index fell -2.8% during the quarter, and the emerging markets, which include the "BRIC" countries Brazil, Russia, India & China, were down -12% for the quarter. Even the price of gold, which is a popular gauge of inflation, declined -22% in the quarter.

AVERAGE MARKET YIELD ON U.S. TREASURY SECURITIES AT 10-YEAR CONSTANT MATURITY: JANUARY 1, 1999 - JUNE 12, 2013



Source: Barclays & Federal Reserve Bank

There is currently no consensus on the timing of the taper and eventual ending of Fed bond purchases, but Chairman Bernanke's comments indicated a growing possibility of a reduction starting in September with bond purchases ending entirely in mid-2014. He hedged with a cautionary note indicating that if the economy and employment soften from here, easy monetary policy will continue beyond 2014. The Fed is charged with controlling inflation and unemployment: while inflation is currently well-contained, unemployment remains problematic at 7.6%. It appears that the Fed will continue with easy monetary policy until the target of 6.5% unemployment has been reached.

Although fears of a Fed pullback provoked an initial negative reaction in June, US equity markets have recovered thus far in July and are trading at or near historical highs. On July 10th, Chairman Bernanke reiterated that a taper starting in September isn't definite and depends on the pace of the recovery. It is clear, however, that the discount rate will stay low and Fed easing will continue at a slower pace.

Despite the volatility of interest rates, equity markets seem to be taking this in stride. Interest rates will eventually return to normal levels as the economy improves and the Fed reigns in monetary policy. This should be favorable as fears of monetary inflation from an excess monetary base are mitigated.

The positive reaction of equities reflects the continued recovery from the 2008-2009 Great Recession and the horrific sell-off in the equity markets. The US economy continues to grow, albeit more slowly than in other recoveries. Europe has stabilized and Japan is showing renewed growth. China is probably engineering a slow down which has put pressure on commodity prices. From this view, it appears the best values are still US equities.

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Our strategy is to shorten the duration of fixed-income investments as yields on these vehicles are extraordinarily low and use the proceeds to invest in shorter maturity fixed-income investments and well positioned growth and cyclical equities. We are retaining some cash for rainy day events or opportunistic investments.

401(k) CONTRIBUTION LIMITS FOR 2013

Good news for retirement savers. The IRS increased the contribution and tax-deferral limits for 401(k) plans for 2013. Employees can now contribute up to $17,500 per year starting in 2013 - a $500 increase over 2012. Those employees over fifty years of age may still make additional catch-up contributions of $5,500 a year (or $23,000 per year in total) to their 401(k) accounts.

And if you receive company matching contributions or profit sharing, the all-in tax-deferral limit has been increased from $50,000 to $51,000 for 2013. Here are the key changes to know:

401(k) LIMIT INCREASES FOR 2013

	2013	2012
Employee contribution limit	$17,500	$17,000
Annual limit per individual	$51,000	$50,000
Age 50+ catch-up amount	$5,500	$5,500
Annual compensation limit	$255,000	$250,000
Highly compensated employees	$115,000	$115,000

There are big advantages for 401(k) accounts over traditional IRAs. The tax advantages for 401(k) savers vs. those opting to use IRAs or don't have access to a 401(k) plan continues to be big:

401(k) ADVANTAGES OVER TRADITIONAL IRAS IN 2013

	401(k)	IRA
Annual limit per individual	$51,000	$5,500
Age 50+ catch-up amount	$5,500	$1,000
Roth income limit	None	$127,000
Penalty-free access, if needed	Yes (via a loan)	No

CLIENTVIEW WEB PORTAL

Winfield Associates, Inc. is pleased to offer the ClientView web portal. ClientView is a secure, cloud-based document vault that serves as a hub for your financial information, including quarterly reports, insurance policies, wills, trusts, and anything else you might like to add.

MARKET PERFORMANCE

	2Q 2013	2013 YTD
Dow Jones	2.9%	15.2%
S&P 500	2.9%	13.8%
Nasdaq	4.5%	13.4%
Russell 2000	3.1%	15.9%
MSCI EAFE	-2.8%	2.1%
Barclays Agg	-2.3%	-2.4%

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

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