



Fourth Quarter 2013

Review and Outlook

The Standard & Poor's 500 total return of 32.39% in 2013 will go down in the books as the best return since 1997, when the S&P 500 rose 33.36%. It is certainly a far cry from 2008's -38.00%, which in some sense seems a distant memory. The price change was 29.6%, with the dividend yield providing 2.8% of the return. But will the positive returns continue in 2014? I believe so, but not without at least one 10% (or more) pull back in stock prices, probably soon. The market seems to be climbing the proverbial "wall of worry", as can be seen from the points below:

- 2013 saw a tax increase at the beginning of the year.
- Interest rates increased, with the 30-year U.S. Treasury yield rising over 1% from near-historic lows.
- The Federal Reserve Board made a gesture towards winding down its Quantitative Easing program late in the year, yet the stock market cheered. Normally, rising interest rates would be bad for stocks, as higher bond yields make bonds more competitive with stocks as an investment option.
- Janet Yellen, a long-term member of the Fed, well-known for her bias towards monetary easing, was confirmed as the successor to Fed Chair Ben Bernanke.
- Earnings estimates trended down in 2013, even as the stock market rose smartly in value.
- The Standard & Poor's 500 P/E multiple stands at about 15, above the long term average of 12, but well below the P/E multiple of 27 achieved during the heady days of the Tech bubble near the turn of the century.
- Poor-quality stocks (those with little earnings or negative earnings; little or no dividend yield; with high debt levels; or with low earnings growth) outperformed solid companies with quality balance sheets and good dividends. After a multi-year run of superior relative performance, quality companies were due to underperform. However, over the long term, high quality always trumps speculation and poor quality.

- Economic sectors of the market performed as follows, from high to low in 2013: Consumer Discretionary (+41.0%), Health Care (+38.7%), Industrials (+37.6%), Financials (+33.2%), Information Technology (+26.2%), Consumer Staples (+22.7%), Materials (+22.7%), Energy (+22.3%), Utilities (+8.8%), and Telecommunications Services (+6.5%).
- Low quality bonds outperformed U. S. Treasury securities by a wide margin. CCC (near-default) bonds provided returns of 11.9%, vs. a -14.3% return for Long Term U. S. Treasury bonds. With interest rates rising from extraordinarily low levels, and the economy improving (helping financially-shaky companies), it is a mathematical certainty that low-quality bonds will outperform U.S. Treasury securities.
- Commodity prices remain under control. Gold plummeted in value, falling -27.7%, while oil rose 7.4% and natural gas rose 23.7%. If gold is a proxy for inflation, then inflation is well-controlled. But don't tell consumers, who seem to be experiencing rapid inflation in the price of essentials like health care, energy, food and the like.
- The third quarter economic growth figure (GDP) rose above expectations, but much of that unexpected increase was a build up of inventory. Is that a positive sign that indicates businesses are building inventory in anticipation of higher sales? Or is it a negative sign that consumer demand has softened below business estimates? I believe it is the latter.
- The official unemployment rate in the U.S. has trended down, and is now below 8%.
- Republican U. S. Representative Paul Ryan, and Democratic Senator Patty Murray agreed to a budget deal that somewhat eased the sequester spending limits. Congress passed the legislation; and President Obama signed it. The deal eliminates the possibility of a government shutdown before the mid-term elections due to reaching the debt limit or having the Continuing Resolution spending legislation expire. Markets cheered.
- We have the 2014 mid-term congressional elections to look forward to, with the Democrats' majority in the Senate seemingly hanging in the balance after a disastrous rollout of the Affordable Care Act (the ACA, or ObamaCare).
- It appears that more people have lost health insurance than have gained it due to the ACA, which has caused significant angst on the part of many citizens and a lot of businesses, particularly small businesses that create most of the new jobs in the country.
- Iran's nuclear ambitions continue, apparently slowed but not entirely abated.
- China's bellicose nature has caused dissention in Asia, as it tries to claim ownership of islands Japan claims as its own. China is also disputing territory with other neighbors.
- There is a possibility of a terrorist attack or similar disruption of the Sochi Winter Olympics in Russia. This might rattle the markets, but would not be an enduring negative overhang on the markets.
- China's economy is not providing the support for global growth that it once was.
- Europe's economy seems to be on the mend; and near term, another financial crisis courtesy of one or more EU members does not appear on the horizon.
- The United Kingdom's stock market rose a respectable 14.4%, while the German market rose 25.5% and the Japanese market soared 56.7%. However, after adjusting for

currency changes, the UK's market rose 16.6%, the German market rose 30.9% and Japan's market rose 23.3%. For U.S. investors in Japanese stocks, Japan's market faced the headwind of a rising dollar vs. the yen.

- Emerging markets stocks did not participate in the generally-bullish global stock market trends in the U.S. and developed international markets.

For our clients with individual stocks, it has been difficult to find quality companies in which to invest that are reasonably priced. As a result, we have been very selective in adding new holdings and are primarily trading in and out of those stocks that we have already identified as quality companies. Going forward, until there is a significant market pullback, we will be satisfied with taking advantage of changes in relative valuations of stocks that we already hold. We will occasionally add a stock here and there when an interesting story presents itself.

We are still cautious on the bond market for the foreseeable future. International developed markets may be promising. Given rising global bond yields, we would be cautious about emerging markets.

For our clients who invested primarily in mutual funds in 2013, we found that, except for emerging markets, most sectors of the stock market performed generally well. Given rising interest rates, it is possible that emerging markets mutual funds will continue to lag vs. other types of equity (stock) mutual funds, since they tend to be more sensitive to interest rate changes than other stock market sectors.

Investment Strategy

- We are watching for a reasonable entry point into the fixed-income market, and for now, prefer to buy short term bonds to avoid big declines in bond values as interest rates continue to rise. In fact, for many of our clients, we are keeping cash in money market funds, rather than in short term U.S. Treasury Notes, to preserve investment flexibility. We are also keeping some cash on the sidelines as well as selling stocks that we no longer want to hold, while searching for purchase candidates.
- We will emphasize high-quality bonds (A-rated or better) when buying bonds for clients is appropriate. We have in the past purchased preferred stocks and lower-quality bonds for income on a limited basis, but only when the risks associated with these types of securities appears reasonable.
- While we may buy bonds from time to time, our emphasis will be on finding quality stocks that will provide a steady, or even rising, stream of dividends for our income-oriented investors. We will be on the lookout for companies with strong financial strength and the ability to raise their dividends.

- Occasionally, there may be interesting stocks that are either undervalued or have huge long-term growth potential that we purchase to boost clients' investment returns but may pay no dividends, or almost no dividends.
- We are looking at the "baby bear" sector of the stock market for suitable stocks that may be less vulnerable to changes in bond yields.
- We believe that a long-term strategic position in Materials and Energy stocks is appropriate. We are keeping an eye on China and emerging markets as signs of economic weakness (in China) become increasingly evident, as well as commodity prices.
- We believe that a rise in stock prices will generally be tied to improvements in corporate earnings; and there will be bumps in the road in a generally, though modestly, rising stock market.
- We believe that this is a stock-picker's market that favors active management of sector weights and is unfavorable to index funds.
- We will sell stocks when (1.) they appear to be overvalued, (2.) substitution of a stock in one industry sector for another makes sense in order to de-emphasize industry sectors in which there may be fundamental weakness and (3) when it makes sense to increase cash or bonds in a client's portfolio and to de-emphasize stocks.
- In 2012, we saw the beginnings of a reversal of fortune, with high-yielding stocks no longer outperforming, and indeed, starting to trail the market averages. Too, recent tax law changes have reduced the attractiveness of dividends versus capital gains. Investors with high income requirements should come to expect that we may be in for a period of underperformance in stocks paying above-average dividends. Still, investors should consider their goals, first and foremost, and not try to chase market returns, which are notoriously volatile.

Disclosure of Current Individual Stock Holdings

Individual stock holdings in accounts in which I have a direct beneficial interest is noted below. Stocks in *italics* are held in the accounts of a family member. The activity is current as of January 3, 2014.

Holdings:

A T & T Inc.

Altria Group, Inc.

Annaly Capital Mgmt.

Apache Corporation

Bank of America

Baxter International, Inc.

Berkshire Hathaway Cl. B.

CVX Corporation

Canadian Natural Resources

Canadian Pacific Railway Ltd.
Chevron Corporation.
Cisco Systems, Inc.
Conagra
Costco
Cullen Frost Bankshares
Cummins, Inc.
Dominion Resources Inc.
Duke Energy Corp.
eBay, Inc.
Enbridge, Inc.
Ford Motor Company
Immersion Corp.
Intuitive Surgical
General Electric
Kansas City Southern
Kimberly-Clark Corp.
Lincoln National Corp.
Mac-Cali Realty Corp.
McDonald's
Merck & Co. Inc.
MetLife, Inc.
MTS Corporation
Newmont Mining Corp.
Norfolk Southern Corp.
Patriot Coal Corp.
PepsiCo Incorporated
PetSmart
Pfizer Incorporated.
Philip Morris International, Inc.
Potash Corp.
Qualcomm, Inc.
Range Resources
Rio Tinto PLC Spon. ADR
Schlumberger Ltd.
Spectra Energy (Added)
Target Corporation
The TJX Companies, Inc.
Verizon Communications
Vertex Pharmaceuticals
W. W. Grainger
Wells Fargo & Co., Inc.
Whiting Petroleum Corp.

Purchases included Canadian Natural Resources, General Electric, W. W. Grainger and Wells Fargo. Sales included Bank of America, Cisco Systems, Dresser Rand Industries and Turquoise Hill Resources. **Note that this list may change due to an inheritance that will eventually be distributable.**

Offer of Form ADV: As always, clients are welcome to request our form ADV, Parts 2A and 2B.

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January 3, 2014

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Labrador Investments, LLC
Financial Market Trends
September 30, 2013

U.S. Treasury Yields	9/30/13	12/31/13	4th Qtr. Change	12/31/2012	2013 Change
90 day T-Bill	0.02%	0.07%	0.06%	0.05%	0.03%
2 Year T-Note	0.33%	0.39%	0.06%	0.25%	0.14%
10 Year T-Note	2.62%	3.04%	0.42%	1.76%	1.28%
30 Year T-Bond	3.69%	3.98%	0.28%	2.95%	1.03%

Stock Market Indices	9/30/13	12/31/13	4th Qtr. Change	12/31/2012	2013 Change
Dow Jones Industrial Average	15129.67	16576.66	9.6%	13104.14	26.5%
Standard & Poor's 500	1681.55	1848.36	9.9%	1426.19	29.6%
Nasdaq Composite	3771.48	4176.59	10.7%	3019.51	38.3%
Dow Jones Utility Index	482.29	490.57	1.7%	453.09	8.3%

Bonds Market Indices (52 wks. as of 1/2/14)	2013 Change
Barclays Corporate Intermediate	-2.53%
Barclays Corporate Long Term	-11.59%
Barclays Aggregate	-1.74%

Foreign Stock Markets	9/30/13	12/31/13	4th Qtr. Change	4th Qtr. Currency Adjusted	2013
FTSE100 (United Kingdom)	6462.22	6749.09	4.4%	6.9%	14.4%
DAX (Germany)	8594.4	9552.16	11.1%	13.0%	25.5%
Nikkei Dow (Japan)	14528.9	16291.31	12.1%	4.4%	56.7%

Foreign Currencies	9/30/13	12/31/13	4th Qtr. Dollar's Perf.	12/31/2012	2013
British Pound (\$/Pound)	1.6189	1.6563	-2.3%	1.6242	-1.9%
Euro (\$/Euro)	1.3521	1.3759	-1.7%	1.3196	-4.1%
Japanese Yen (Yen/\$)	98.47	105.28	6.9%	86.765	21.3%

Commodities	9/30/13	12/31/13	4th Qtr. % Change	12/31/2012	2013
Gold Spot Price/Oz.	\$ 1,326.50	\$ 1,204.80	-9.2%	\$ 1,667.48	-27.7%
West Texas Int. Crude Oil/bbl	\$ 102.33	\$ 98.61	-3.6%	\$ 91.82	7.4%
Natural Gas	\$ 3.52	\$ 4.21	19.7%	\$ 3.40	23.7%

Labrador Investments, LLC
Focus and Holdings List
December 31, 2013

NAME	09/30/13	12/31/13	% CHANGE	YIELD
CF Industries Holdings, Inc.	\$ 210.83	\$ 233.04	10.5%	1.7%
E. I. du Pont de Nemours and Company	\$ 58.56	\$ 64.97	10.9%	2.8%
Freeport-McMoRan Copper & Gold Inc.	\$ 33.08	\$ 37.74	3.8%	3.3%
Nucor Corporation	\$ 49.02	\$ 53.38	0.0%	2.7%
Praxair Inc.	\$ 120.21	\$ 130.03	0.0%	1.8%
Rio Tinto plc	\$ 48.76	\$ 56.43	15.7%	3.0%
Weyerhaeuser Co.	\$ 28.63	\$ 31.57	10.3%	2.8%
CSX Corp.	\$ 25.74	\$ 28.77	11.8%	2.1%
Eaton Corporation plc	\$ 68.84	\$ 76.12	10.6%	2.2%
Fluor Corporation	\$ 70.96	\$ 80.29	13.1%	0.8%
General Electric Company	\$ 23.89	\$ 28.03	17.3%	3.2%
Honeywell International Inc.	\$ 83.04	\$ 91.37	10.0%	2.0%
Illinois Tool Works Inc.	\$ 76.27	\$ 84.08	10.2%	2.0%
Kansas City Southern	\$ 109.36	\$ 123.83	13.2%	0.7%
The Manitowoc Company, Inc.	\$ 19.56	\$ 23.32	19.2%	0.3%
Norfolk Southern Corporation	\$ 77.35	\$ 92.83	20.0%	2.3%
Union Pacific Corporation	\$ 155.34	\$ 168.00	8.1%	1.9%
AT&T, Inc.	\$ 33.82	\$ 35.16	4.0%	5.2%
Frontier Communications Corporation	\$ 4.18	\$ 4.65	11.2%	8.5%
Verizon Communications Inc.	\$ 46.67	\$ 49.14	5.3%	4.3%
Darden Restaurants, Inc.	\$ 46.29	\$ 54.37	17.5%	4.0%
Ford Motor Co.	\$ 16.87	\$ 15.43	-8.5%	2.6%
Frisch's Restaurants, Inc.	\$ 24.13	\$ 25.63	6.2%	2.8%
The Home Depot, Inc.	\$ 75.85	\$ 82.34	8.6%	1.9%
Leggett & Platt, Incorporated	\$ 30.15	\$ 30.94	2.6%	3.9%
Lowe's Companies Inc.	\$ 47.61	\$ 49.55	4.1%	1.5%
McDonald's Corp.	\$ 96.21	\$ 97.03	0.9%	3.3%
Target Corp.	\$ 63.98	\$ 63.27	-1.1%	2.8%
Tractor Supply Company	\$ 67.17	\$ 77.58	15.5%	0.7%
V.F. Corporation	\$ 199.05	\$ 62.34	-68.7%	1.7%
Wal-Mart Stores Inc.	\$ 73.96	\$ 78.69	6.4%	2.4%
Walgreen Co.	\$ 53.80	\$ 57.44	6.8%	2.2%
Altria Group Inc.	\$ 34.35	\$ 38.39	11.8%	5.0%
Anheuser-Busch InBev SA/NV	\$ 99.20	\$ 106.46		1.3%
The Coca-Cola Company	\$ 37.88	\$ 41.31	9.1%	2.8%
ConAgra Foods, Inc.	\$ 30.34	\$ 33.70		3.0%
Flowers Foods, Inc.	\$ 21.44	\$ 21.47	0.1%	2.1%
The J. M. Smucker Company	\$ 105.04	\$ 103.62	-1.4%	2.2%
Kellogg Company	\$ 58.73	\$ 61.07	4.0%	3.0%
Kimberly-Clark Corporation	\$ 94.22	\$ 104.46	10.9%	3.1%
Pepsico, Inc.	\$ 79.50	\$ 82.94	4.3%	2.7%
Philip Morris International, Inc.	\$ 86.59	\$ 87.13	0.6%	4.3%
The Procter & Gamble Company	\$ 75.59	\$ 81.41	7.7%	2.9%
Reynolds American Inc.	\$ 48.78	\$ 49.99	2.5%	5.1%
BP plc	\$ 42.03	\$ 48.61	15.7%	4.7%
Canadian Natural Resources Limited	\$ 31.44	\$ 33.84	7.6%	2.3%
Cenovus Energy Inc.	\$ 29.85	\$ 28.65	-4.0%	3.2%
Chevron Corporation	\$ 121.50	\$ 124.91	2.8%	3.2%

Encana Corporation	\$ 17.33	\$ 18.05	4.2%	1.6%
Exxon Mobil Corporation	\$ 86.04	\$ 101.20	17.6%	2.5%
National Oilwell Varco, Inc.	\$ 78.11	\$ 79.53	1.8%	1.3%
Range Resources Corporation	\$ 75.89	\$ 84.31	11.1%	0.2%
Stone Energy Corp.	\$ 32.43	\$ 34.59	6.7%	
American Express Company	\$ 75.52	\$ 90.73	20.1%	1.0%
Annaly Capital Management, Inc.	\$ 11.58	\$ 9.97	-13.9%	12.2%
Cullen/Frost Bankers, Inc.	\$ 70.55	\$ 74.43	5.5%	2.7%
Equity Residential	\$ 53.57	\$ 51.87		5.0%
Fifth Third Bancorp	\$ 18.05	\$ 21.03	16.5%	2.3%
Liberty Property Trust	\$ 35.60	\$ 33.87	-4.9%	5.5%
Mack-Cali Realty Corp.	\$ 21.94	\$ 21.48	-2.1%	5.5%
Sun Life Financial Inc.	\$ 31.97	\$ 35.33	10.5%	3.9%
The Toronto-Dominion Bank	\$ 89.98	\$ 94.24	4.7%	3.5%
U.S. Bancorp	\$ 36.58	\$ 40.40	10.4%	2.3%
Vornado Realty Trust	\$ 84.06	\$ 88.79	5.6%	3.2%
Wells Fargo & Company	\$ 41.32	\$ 45.40	9.9%	2.6%
Abbott Laboratories	\$ 33.19	\$ 38.33	15.5%	2.3%
AbbVie Inc.	\$ 44.73	\$ 52.81	18.1%	3.0%
Amgen Inc.	\$ 111.93	\$ 114.08	1.9%	2.1%
Baxter International Inc.	\$ 65.69	\$ 69.55	5.9%	2.8%
Bristol-Myers Squibb Company	\$ 46.28	\$ 53.15	14.8%	2.7%
Hospira Inc.	\$ 39.22	\$ 41.28	5.3%	
Intuitive Surgical, Inc.	\$ 376.27	\$ 384.08	2.1%	
Johnson & Johnson	\$ 86.69	\$ 91.59	5.7%	2.9%
Eli Lilly and Company	\$ 50.33	\$ 51.00	1.3%	3.8%
Medtronic, Inc.	\$ 53.25	\$ 57.39	7.8%	2.0%
Merck & Co. Inc.	\$ 47.61	\$ 50.05	5.1%	3.5%
Meridian Bioscience, Inc.	\$ 23.63	\$ 26.52	12.2%	2.9%
Pfizer Inc.	\$ 28.73	\$ 30.63	6.6%	3.4%
St. Jude Medical Inc.	\$ 53.64	\$ 61.95	15.5%	1.6%
Teva Pharmaceutical Industries Limited	\$ 37.78	\$ 40.08	6.1%	2.8%
Vertex Pharmaceuticals Incorporated	\$ 75.82	\$ 74.30	-2.0%	
Zimmer Holdings, Inc.	\$ 82.14	\$ 93.19	13.5%	0.9%
Immersion Corporation	\$ 13.20	\$ 10.38		
Intel Corporation	\$ 22.92	\$ 25.96	13.2%	3.5%
Microsoft Corporation	\$ 33.28	\$ 37.41	12.4%	3.0%
MTS Systems Corporation	\$ 64.35	\$ 71.07	10.4%	1.7%
Texas Instruments Inc.	\$ 40.29	\$ 43.91	9.0%	2.7%
American Electric Power Co., Inc.	\$ 43.35	\$ 46.74	7.8%	4.3%
Dominion Resources, Inc.	\$ 62.48	\$ 64.69	3.5%	3.5%
Duke Energy Corporation	\$ 66.78	\$ 69.01	3.3%	4.5%
Entergy Corporation	\$ 63.19	\$ 63.27	0.1%	5.3%
Exelon Corporation	\$ 29.64	\$ 27.39	-7.6%	4.6%
NextEra Energy, Inc.	\$ 80.16	\$ 85.62	6.8%	3.1%
Spectra Energy Corp.	\$ 34.23	\$ 35.62	4.1%	3.5%

Notes:

Added: None

Deleted: None

Excludes certain speculative names purchased by one client.