RUTHERFORD
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Client Newsletter -– Quarter Ending December 31, 2013

The market had a remarkable year last year, gaining 32.39% in the S&P 500 index. To put it in perspective, the S&P 500 has gained over 20% in a calendar year 21 times since 1945 that is 21 times out of 68 years, or almost 31 % of the time. This amazing statistic is reason enough for remaining fully invested in the market. Even when times are grim, and the market is off, one should remain invested. In the same 68 year period, the market has gained over 30% just six times. Still this almost 10% records of gains is also a strong argument for staying invested.

Now we turn to 2014, and wonder what this year will bring. Since 1945, stocks gained 10% or more on average in the year following 20% gain which is more than the 8.7% gain of all years. Can we see a 10% or more gain this year? It is possible, if not probable. Remember that past performance is no indicator of future success.

We all know that the economy is still weak. This has been the most anemic recovery since the great depression. Millions are still unemployed and underemployed. Millions more have dropped out of the workforce for lack of jobs. Ninety one and a half million Americans are not working at all. The real unemployment rate, as measured by the government, is 13.2%. Millions now face the prospect of forced retirement without adequate resources to get through retirement.

The past year ended on a positive note. The economy started 2014 with momentum as the economy grew at an estimate 3.4% in the last half of 2013. Employers added more jobs than expected in October and November. Home prices rose.

Forecasts are for an earnings gain in 2014 of five to ten percent. At an estimated price to earnings ratio of 15.95%, the market is not overvalued. With the projected earnings increase; we could see the market rise. Throw in some multiple expansions and the rise could be even more.

Europe appears on the mend. Asia has seen recovery in Japan, and continued growth in the Chinese economy.

Bonds appear set to have another weak year, coming off flat to down returns in 2013.

We were recently notified by Morningstar that they rated our Multicap Growth performance with an Overall Morningstar Rating of Four Stars. This risk adjusted rating places our performance in the top quartile of our investment style peer group over the last ten years ending September 2013.

Thank you for the opportunity to manage your funds. We look forward to working with you further. Call if you have questions.

William D. Rutherford

Rutherford Investment Management

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