2014: A COMPREHENSIVE LOOK

After a stellar year for stocks in the U.S. and other developed markets around the world, what can investors expect in 2014? How should your portfolio be positioned to take advantage of themes, trends and the continued economic recovery in 2014? At WT Wealth Management we take a long-term view in our portfolio allocations but realize investors are always concerned about what lies ahead, especially when entering a new year.

If the Federal Reserve's semi-surprise move to taper in December is any indication, you can expect more of the unexpected in 2014. Using our research driven approach to portfolio construction we make every attempt to position our portfolios within asset classes where the overall sentiment is bullish. Our multi-portfolio approach allows investors to select a risk/return profile that meets their individual needs.

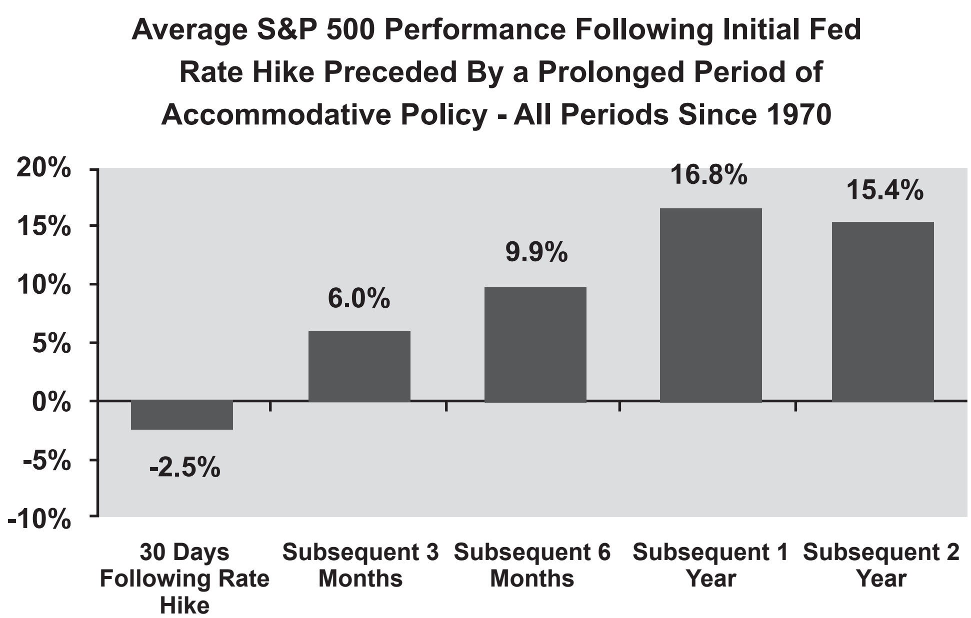
As we reallocate portfolios for 2014, consider this: U.S. stocks likely will have a good year, not a great one; stock markets in Europe and Japan seem to be on the mend, and U.S. bond holders could be on thinner ice now that the Fed has decided the U.S. economy needs less of its support.

U.S. STOCKS GO FROM GREAT TO GOOD

The Standard & Poor's 500 index posted better than a 32% gain in 2013. That's not a misprint. The slow-but-steady U.S. corporate earnings growth, relatively low interest rates and low inflation that helped stock prices in 2013 is likely to continue through 2014, in our opinion.

We feel it's doubtful that the U.S. market benchmark will be even half as generous to investors in 2014. The S&P 500 has enjoyed 20%-plus yearly gains 18 times since 1945 (according to S&P Capital IQ). After those 20%-plus years stocks the following years were up about 80% of the time, posting an average 10% gain. Yet unlike in 2013, such positive performance hasn't come smoothly or without consternation. Investors in each of those years endured interim market slides averaging nearly 12%.

While it's counterintuitive, rising means the economy is on a more solid footing and that is usually a positive sign for stocks as the economy expands. History has shown that in the first few weeks after a hike in rates the markets sell off, but then the information is digested, the panic subsides and in most cases the next few years are kind to stock holders.



Courtesy of S&P Capital IQ

U.S. STOCKS GO FROM GREAT TO GOOD (CONT.)

In our opinion, we are a long way from a rate hike but we would rather be positioned ahead of the curve than behind it.

Keep in mind, the S&P 500 hasn't suffered a 10% or greater decline in more than two years. Many managers, us included, feel that a sell-off is overdue and expect one at some point in 2014. We see short-term selloff in the 7-10% range with equities ultimately finishing higher by year end.

WT Wealth Management is recommending a slight overweighting to domestic equities for 2014.

NO SURPRISE, BONDS GET RISKIER

With the U.S. economy showing the first signs of a sustained recovery, the Federal Reserve in December moved to taper the bond-buying program that has subdued interest rates, supported economic growth and spurred stock prices over the past several years. The prospect of tapering hurt bond investors in 2013. In 2014 the trend should continue for bond holders but most experts see little chance of any rate hikes until the 1st quarter of 2015. With that said, it's important to remember that "tapering is not tightening".

A rising-rate environment would push longer-term yields higher, depressing prices for Treasuries and other bonds with extended maturities beyond the 10-year mark.

WT Wealth Management is recommending staying on the shorter end of maturity curve (less than 10 years) and utilizing asset classes with shorter durations like Senior Floating Rate Funds. In addition, we are anticipate using inverse Treasury ETF's to help offset some of the potential losses we expect bond holders to suffer as rates slowly increase in 2014 as a result of continued tapering of asset purchases by the Fed. We feel that by strategically using inverse treasury ETF's we can potentially smooth out the ride for bond holders in 2014 but not necessarily eliminate the potential downside completely.

OVERWEIGHT LARGE-CAPS, UNDERWEIGHT SMALL AND MID-CAPS

Most experts agree, the global economy is looking healthier. Two of its most serious cases, the Eurozone and Japan, are in the very early stages of recovery. Most analysts expect world economies collectively to grow a relatively modest 3.3% in 2014 versus 2.5% in 2013, with the U.S., the Eurozone, the U.K. and China standing out.

Stronger global growth is good news for large U.S. companies that count on overseas demand. Companies in the S&P 500, for example, average almost half of their sales from outside of the U.S. In addition, we feel that the largest capitalized companies could benefit from a pickup in U.S. growth and a willingness among consumers and corporations alike to spend money they had been unwilling to do so in the past few years. Many noted Wall Street firms have bullish projections for the S & P 500 in 2014.

Wall Street year-end 2014 targets for S&P 500

Strategist	Firm	S&P 500 target	% above Dec. 31 level
David Bianco	Deutsche Bank	1,850	0.2
Brian Belski	BMO Capital	1,900	2.9
Barry Knapp	Barclays	1,900	2.9
David Kostin	Goldman Sachs	1,900	2.9
Jonathan Golub	RBC Capital Markets	1,950	5.6
Andrew Garthwaite	Credit Suisse	1,960	6.1
Tobias Levkovich	Citi Research	1,975	6.9
Savita Subramanian	B. of A. Merrill	2,000	8.3
Adam Parker	Morgan Stanley	2,014	9.0
Thomas Lee	J.P. Morgan	2,075	12.3

Source: MarketWatch

OVERWEIGHT LARGE-CAPS, UNDERWEIGHT SMALL AND MID-CAPS (CONT.)

Small and Mid-Cap U.S. companies, by contrast, are mostly domestically focused. These stocks have run far and fast in 2013. Large Cap multinationals also frequently provide dividend income and dividend growth that can satisfy yield-hungry investors. The additional income provided by dividends also help smooth out would could be periods of uncertainty and volatility in 2014.

WT Wealth Management is recommending an overweight to Large-Caps in 2014, along with a slight underweight on Small and Mid-Caps.

EUROPE IS ON THE MEND

The Eurozone's most economically troubled countries are emerging from recession in our opinion. The European Central Bank is committed to keeping interest rates low in a bid to spur growth, and ECB President Mario Draghi's pronouncement in July 2012 to "do whatever it takes" to maintain the Eurozone seems to have been a turning point. The first thing stock buyers need to know is that even after double-digit 2013 gains for euro-zone and U.K. stocks, many investors are still skeptical about the region's short-term future.

Patience is needed with Europe, but a growing number of analysts expect that investors will be rewarded for it. Most feel a longer and more sustainable rally will play out in 2014. European companies today are recovering in similar fashion to what their U.S. peers enjoyed over the past two years. Many Eurozone experts are predicting that Europe's domestic companies will see better-than-expected top-line growth in the coming year, with broad euro-zone stock indexes gaining 10% to 12%.

At WT Wealth Management we are Neutral on International Developed Countries and underweight Emerging Markets. We will closely monitor the situation around the globe and could potentially increase are international exposure if we see stronger signs of recovery. We feel the global recovery is still too early, in our opinion, for investors to have increased exposure to less developed/emerging markets and maintain a nominal weighting in our portfolios.

'MADE IN AMERICA' WAVES THE FLAG

U.S. companies are finding that you can go home again. Many manufacturers are bringing factory production — and jobs — back to the U.S. from China. U.S. workers are highly skilled and their salaries are competitive with China, which has seen wages soar. Low U.S. energy and transportation costs are also attractive. U.S. industrial production in November hit a record high, led by motor vehicles and parts. Americans are spending more on U.S.-produced goods and services and less on imports. Look for continued import substitution in the year ahead, which would benefit the industrials and consumer sectors and the U.S. job market.

This "Made in the U.S.A." investment theme is still in its early stages. We feel the next leg of economic growth favors both large- and small-company stocks in cyclical sectors including engineering and construction, transportation, autos, manufacturing and energy. We ultimately feel the economy is on a path to producing "stuff" again.

U.S. ENERGY INDEPENDENCE POWERS UP

The U.S. is increasingly energy independent, and this remarkable development is a game-changer not just for oil and gas producers but for the global economy. Cheaper energy gives U.S. companies a sizeable competitive advantage over rivals in Europe, Japan and many emerging markets. U.S. exporters in key areas including chemicals, machinery and transportation equipment are benefiting from streamlined costs, according to Boston Consulting Group.

Domestically, energy independence eases the strain on household budgets and spurs consumer confidence. U.S. oil production in October exceeded imports for the first time in almost two decades, according to the U.S. Energy Information Administration. Yet the energy sector has lagged the broad U.S. market and is unpopular with investors, despite these stocks benefitting from accelerated global growth and offering attractive dividend yields. Money managers significantly underweight the energy sector in portfolios and the group's valuation is low based on book value, cash flow and earnings growth. History has shown that the energy sector outperforms during later periods of economic recovery.

AT WT Wealth Management we have an overweight to the Energy Sector in most of our portfolio's for 2014.

GOLD STAYS TARNISHED

Gold has lost its shine in 2013 with a decline of nearly 30%. With the U.S. dollar strengthening and much of the world economy on a slow-growth, low-inflation trajectory, already depressed gold prices are likely to fall further in 2014. Most investors would want gold in an inflationary environment and most agree we don't have that currently as a hurdle.

At WT Wealth Management we do not have any current allocation to metals or commodities. We feel these asset classes are subject to many outside forces including speculators, traders and arbitrage specialists. We feel they lack measurable fundamentals and do not feel they are appropriate for the average investor.

BANK ON U.S., EUROPEAN FINANCIAL STOCKS

Higher interest rates in the U.S. would favor banking companies, which benefit from a climate where short-term deposit rates stay low and longer-term lending rates rise. An improved U.S. economy, meanwhile, puts people to work and supports credit card issuers, and a stronger stock market boosts asset managers.

Banks have cleaned up their balance sheets, and while loan growth remains tepid, lending should continue to pick up as credit conditions ease. This year should see the fewest U.S. bank failures since 2007. Smaller regional banks are generally in stronger financial shape than many larger banks and some managers are betting on small and mid-cap financial for 2014. The current upbeat outlook for Europe's financial sector hinges on the end of recession in the Eurozone and growing business confidence across the region, including the U.K. Many banks in Europe are trading below book value and should see higher valuations in the year ahead.

AT WT Wealth Management we have an overweighting to the Finance Sector in most portfolios. This overweight is concentrated in US based banks and financial institutions.

CONSUMER STOCKS CASH IN

The U.S. consumer is alive and well. Americans are more optimistic about the economy and increasingly confident about keeping or getting a job. People are buying cars, clothing and taking cruises. They're spending on electronics, appliances and home improvement. Bank of America Merrill Lynch Global Research expects growth in consumer spending to increase 2.6% in 2014 from 1.9% in 2013, supported by a "sweet spot of a stronger economy, moderate inflation and historically low but gradually rising interest rates."

Yet while consumer sentiment is encouraging, consumer stocks have plenty of detractors. The economically sensitive consumer discretionary sector has outperformed the broad U.S. market in 2013, so its valuation seems a bit stretched. Consumer staples, meanwhile, have lagged the market but this traditionally defensive sector seems out of step with the growth-oriented stock strategies that are expected to define 2014.

AT WT Wealth Management we differ slightly that most analysts and are recommending a continued overweight allocation to Consumer Staples in most portfolios. We feel that the low beta and above average portfolio yield within the Consumer Staples sector could potentially provide some additional portfolio stability that could be useful in 2014.

SUMMARY

While we are not in the business of making predications we anticipate 2014 being a good year for equity investors. Returns should revert to their historical mean and in the absence of compelling interest rates many investors will continue to seek out high quality dividend paying stocks as a source of income and safe haven from rising rates. In our opinion, this confluence should provide sustained fuel for the equity markets throughout 2014. We also feel that the Eurozone will continue to improve during 2014, providing a tailwind rather than the nearly 5 year headwind that domestic multi-nationals have had to combat.

Additionally, with a new incoming Fed chairperson set to take hold, we believe the Fed will be cautious and measured in its approach to tapering in an effort to not upset an improving economy, a slow but steady decrease in unemployment and continued positive consumer sentiment that has improved throughout 2013. This cautious approach should allow the economy to continue its expansion during 2014

SUMMARY (CONT.)

For Bond holders, while we do not anticipate any fundamental rise in interest rates during 2014, we feel bond prices will be impacted negatively and rates will rise organically as tapering is diminished throughout the year and the market place braces for the first signs of a rate increase. In our opinion, the widely followed Barclays US Aggregate Bond Index should have another negative year backing up a 2% decline in 2013.

WT Wealth Management continually recommends that investors work with their investment professionals to adequately understand their personal goals, objectives and risk tolerances for 2014 and beyond.

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