Vorpahl Wing Securities, Inc.

# FISCAL FITNESS

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Special Edition

# *The Top 10 Economic & Investment Predictions for 2013*

### *The Investment Policy Committee*

*The Investment Policy Committee (IPC) (a group comprised of the top financial consultants at Vorpahl Wing Securities that meets twice a month) compiled the top 10 investment themes for 2013. This group was formed for the discussion and approval of sound investment advice and appropriate investment vehicles for our VWS client base. We discuss such topics as macroeconomic thoughts, theories, and trends and how these trends relate to the markets on a short-, medium-, and long-term basis. We also discuss current geopolitical events and how we think such events will affect the markets.*


### The Political Arena

The election is behind us, and we believe businesses will continue to move forward but with caution because of excessive regulations on the banking industry, Obama Care, the U.S. debt, and the constant battles in Washington over budgetary issues. We think these concerns will continue to weigh on business decisions, especially when they concern new employee hires.

### Executive Summary

We expect the markets to show steady growth, but we believe there are no major catalysts to drive the market beyond 15,000. We expect the DOW to close at the end of 2013 somewhere between 14,500 and 15,000. We also expect interest rates to remain flat but believe investors should focus on short-duration bonds with global diversification. We see the GDP for 2013 coming in at a range of 2 ½ to 3%. We believe the housing market has reached bottom or very close to bottom and will continue to show signs of recovery. The IPC does not see much improvement in the unemployment rate, which hovers around the 7.5 to 8% range. We think consumers will get comfortable with this unemployment rate and as a result will perceive their own situations as more stable which might help the markets somewhat. We also believe large-cap dividend-paying stocks could be a good investment choice but also believe mid-cap stocks could offer good growth potential due to their flexibility to adjust quicker to changing environments.






**Spokane Markets**

Dr. Grant D. Forsyth professor of economics at Eastern Washington University (and who served on the Mayoral and Governor's economic advisory committee in 2011) believes Spokane can expect more of the same in employment rates. Unemployment should stay around 8% with unemployment growing among the younger generation. There has been no significant job growth in the Spokane region since 2007, as well as no significant income growth. Real estate should grow slightly with moderate price increases. Dr. Grant's other predictions include: personal income growth around 0.5%; non-farm employment growth at 0.5%; and existing home price growth between 8 and 10%. Spokane taxable sales growth will remain flat.

## Interest Rates and the Strength (Weakness?) of the Greenback

In the year 2012 the U.S. dollar continued to show strength, mostly as a result of budget problems and weaker currencies in other countries; so the U.S. dollar, no matter how big the budget troubles are in the U.S., is still considered the safe haven. Although we think the dollar will eventually weaken due to massive budget deficits and climbing interest rates, we could see some weakening in 2013, especially if budget talks in Washington fail to go anywhere; however, it will remain as backup the currency of choice, especially if other foreign countries fail to balance their budgets or begin to show signs of weaker economic activity.

Interest rates should remain low, especially since the Federal Reserve Chairman, Ben Bernanke, has indicated he will not raise rates until 2015 or until the unemployment rate drops to 6.5%. As long as inflation stays in check, there will be no reason to raise the rates anytime soon.

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**The Top Asset Classes**

We think large-cap dividend-paying stocks will continue to perform well in 2013. These stocks did well in 2012 and have a tendency to do well in uncertain markets. We also think mid-cap stocks will do well. These mid-cap companies are large enough to weather the storm but flexible enough to make changes in a rapidly changing environment.

On the fixed income side, we see municipal bonds performing well, and with states being forced to balance their budgets, default rates will be on the low side. We also believe high-yield bonds will continue to perform well since their dividend yield will keep their prices buoyant. We also think international bonds will offer above average returns. We also believe any bonds in portfolios should keep the duration short due to the possibilities of inflation making a sudden entrance.

**Energy**

Oil will continue to be in demand, especially for emerging market economies. With the discovery of new drilling techniques natural gas will continue to make headway, replacing coal as the main source of electricity generation. Nuclear power, we think, is a sleeping giant. In spite of negative implications with nuclear we see nuclear power as being a major source of electricity generation, but this sector will take years to develop.

**Commodities**

Commodities are bulk goods and raw materials such as grains, metals, livestock, oil, cotton, coffee, sugar, and cocoa that are used to produce consumer products. The emerging world economies continue in their process of creating a middle class, and we think this is causing the commodities sector to outperform. But this sector is normally very volatile year after year; one year it could be the top performer and the next the worst.

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**Market Predictions**

We believe the market will show slow, steady growth with no major catalyst propelling the market beyond 15,000. We see 2013 ending somewhere between 14,500 and 15,000. Growth will continue due to an environment of low interest rates and improving corporate earnings.

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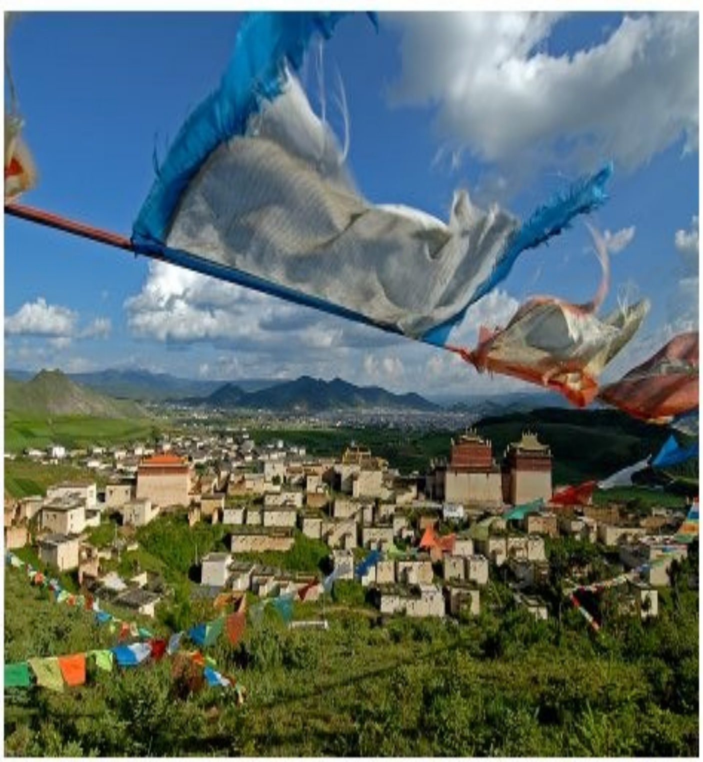

**International and Emerging Markets**

Emerging market's citizens will see a better lifestyle as the emerging markets continue their shift toward a middle class. As the middle class population grows, we think demand for goods and services will continue to rise. This growth should bode well for these emerging markets.

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# Investment Advice for Every Generation

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