



Newsletter

October 22, 2013

Dear Clients,

The equity markets continued to produce positive results through the end of the third quarter, helping to generate very strong year to date performance numbers. It will be more and more difficult for the equity markets to produce comparable returns going forward, so future

expectations must be tempered. The bond markets have not produced positive returns, and as a result, money markets have out-performed the bond market so far this year. This trend is likely to continue for some time.

Quarter Ending September 30, 2013		
Year to Date Performance	Last Full Quarter	Index Close
Dow Jones Industrial Averages	2.11%	15,129.67
NASDAQ Composite Price	10.82%	3,771.48
Standard & Poor's Averages	5.24%	1,681.55
Barclay's Capital Bond Index	0.37%	
EAFE-Global Markets	11.61%	

The end of the calendar third quarter also brought an end to our government's fiscal year. We will now be inundated with political rhetoric, infighting and finger pointing while our leaders try to resolve our budget issues. Trying to make sense of all of this is a little like trying to wrestle Jell-O! The government's balancing act will require lots of smoke and mirrors. Case in point, take the August 20th issue in the Minneapolis Star Tribune written by L.A Times reporter Jim Puzanghera. The article ("Fannie, Freddie delaying write-offs") detailed how ... "despite a 2012 determination by their regulator, the Federal Housing Finance Agency, that the new accounting rules be adopted," Fannie and Freddie decided to arbitrarily wait until 2015 to comply. The FHFA wants the financial accounting methods to reflect the true value of an institutions portfolio, and thus its net worth, and viability. Why did they wait? Because "the write-offs would eat into the recent record profits by the two mortgage finance giants" that allowed them to pay the government about \$150 billion in dividends, which "helped the federal government significantly reduce its budget deficit and delay the need to raise the debt limit until this fall". Huh? Record profits?? Back in my days with the tax shelter department, we referred to this as phantom income. What happens in 2015 when the day of reckoning comes? I fear we still have lots of skeletons yet to be revealed in our banking industry.

We the voters, especially the young ones, appear to have no clue as to the future financial burdens imposed on them by a government awash in too many entitlements. These entitlements got the politicians elected, and I fear too many of them are more concerned about their careers and their entitlements, and not fixing our budget problems. There have been too many promises made and not enough tax dollars to fund them.

Despite the long term issues we face, the global economies are very slowly healing. Here in the U.S. growth is tepid as we attempt to balance our financial issues. Quantitative easing is still in place, but will fade away once the economy shows more strength. All of these issues have kept investors in a defensive mode, long cash and short term investments, which should provide future purchasing power. Corporations have reduced their use of leverage, many have begun to reinstate or raise their dividend, and some have upped or started a share repurchase program. All of this should provide for more stable equity pricing. The equity markets are not over priced based on current interest rates and some historical valuations. Having said that, there are and will continue be companies that get over- bought. Our job is to focus on quality and value at the right price with the understanding that patience is integral to long term success. There is still little competition for the equity markets.

As always, if you have any questions or concerns don't hesitate to call.

Sincerely,

Jeffrey L. Farni Sr.

**As required by Advisors Act Rule 204-3 advisory disclosure documents (ADV Part 2A) are available upon request.*