GALECKI FINANCIAL MANAGEMENT

FINANCIAL SENSE

	LAST MONTH	LAST 3 MONTHS	YTD
S & P 500 Index	2.53%	10.51%	32.39%
Russell Midcap Index	2.98%	8.39%	34.76%
Russell 2000 Index	1.97%	8.72%	38.82%
Dow Jones Industrial Average	2.64%	10.15%	32.97%
Morgan Stanley EAFE Index	1.50%	5.71%	22.78%
S & P Global REIT Index (ex US)	0.31%	0.12%	8.32%
DJ UBS Commodity Index	1.24%	-1.05%	-9.52%
Barclays Aggregate Bond Index	-0.57%	-0.14%	-2.02%

INDEX RETURNS

The final three months in 2013 were exciting for equity investors. The S&P 500 was up 10.51% in the quarter and finishes the year up 32.39%. Mid cap stocks as measured by the Russell Midcap Index were up 8.39% in the quarter and finished 2013 with a gain of 34.76%. Small cap stocks as measured by the Russell 2000 index gained 8.72% in the quarter and produced an annual return of 38.82%.

International equities began their recovery in the third quarter and continued their climb in the final three months. International Developed markets as measured by the MSCI EAFE index rose 5.71% in the last 3 months and finished the year up 22.78%. International Emerging markets posted a 4th quarter gain of 1.83% and finished 2013 down 2.60%. Real Estate and Commodities both struggled in 2013. The S&P Global REIT Index was only up 0.12% in the fourth quarter, but did post an annual gain of 8.32%. Commodities declined by 9.52% in 2013.

The bond market continued to struggle and lost another 0.14% in the final quarter. The Barclays Aggregate Bond Index fell 2.02% on the year. The JP Morgan Emerging Markets Bond index fell 6.45% on the year.

ECONOMIC REVIEW AND OUTLOOK

The economy grew in the third quarter at an annualized rate of 4.1% as measured by Real Gross Domestic Product. The 4.1% rate was significantly higher than the 2.5% rate in the second quarter and was attributable to improved private inventory investment. Estimates for the fourth quarter are for growth rates in the 2-3% range.

The Index of Leading Economic Indicators rose 0.8% in November following a 0.1% increase in October. The Index is up 3.1% over the last six months with six of the ten components advancing. This suggests the economy should continue to expand at a moderate pace. Industrial Production increased 1.1% in November, which was the best reading since November 2012. The capacity utilization rate (measure of factory space in use) increased 0.8% in November to 79.0%, which is 1.2% below its 40 year average. This means that inflation is likely to be benign in the near term, which will allow the Federal Reserve to continue to be accommodative.

The U.S. labor market continues to improve. Total non-farm payrolls increased by 203,000 in November and then by 74,000 in December. This has dropped the unemployment rate down to 6.7%. The underemployment rate remains high at 13.2% despite a decline of 0.6% last month. Weekly initial unemployment claims were 330,000 for the week ending January 4. The four week moving average is now at 349,000.

The ISM manufacturing index was at 57% in December. This was the second highest reading for the year. A reading above 50% suggests an expanding manufacturing sector. The ISM Non-Manufacturing index came in at 53% in December which was 0.9% lower than November. This reading suggests continued growth in the non-manufacturing sector of the economy.

The housing market continues to be a bright spot for the economy. Building permits (an indication of future construction) declined slightly in November to an annual rate of 1.007 million units. This is still roughly 8% higher than a year ago. In addition, new home sales rose to an annual rate of 464,000 in November. This was an increase of 16% from the 398,000 units in November of 2012. There is only a 4.3 month supply of homes for sale, which is well under the historical average.

Things are improving dramatically from a global perspective. The JP Morgan Global Manufacturing PMI is now at 53.3% in December up from 53.1% in November. This data points to continued global economic expansion.

EQUITY AND BOND MARKETS

The fourth quarter produced impressive returns for equity investors. The S&P 500 was up more than 10% in the quarter and finished the year up 32.39%. Since March 9, 2009, the S&P 500 is up 173%. This bull market is now the 6th longest in the history of the S&P 500 with a run of 1,758 days at the end of the year. The longest run ended in 2000 after 4,494 days. The biggest bull market run also ended in 2000 after a gain of more than 582%.

When the bull market ended in March of 2000, the S&P 500 hit 1,527 and the forward P/E was around 25.6 times earnings. As of the end of 2013, the S&P 500 was at 1,848 but has a forward P/E of only 15.4 times earnings. The 15 year average is 16.2, so U.S. equities appear to be fairly valued, but no longer significantly undervalued.

International markets have trailed the U.S. markets for the last 5 years. Recently however, they have begun to show some life. The EAFE index is still 29% below its 2007 peak, while the S&P 500 has already surpassed its 2007 mark. If it takes the EAFE 2 more years to get back to the 2007 level, that is still roughly 15% per year. Emerging markets are also running about 19% below their 2007 peak. The forward P/E for the EAFE index is only 13.3 and the forward P/E for the EM Index is only 10.2 times earnings. Both look attractive relative to U.S. valuations.

The alternative asset class stumbled in 2013. Commodities were down 9% on the year due to the slowdown in emerging economies. We believe they are pretty attractive at these levels and still offer good diversification benefits. Real Estate was relatively flat on the year. We still love the 6.5% dividend yield that we get in this space and believe it gives us additional diversification in the portfolio.

The bond market declined in 2013 with the Barclays Aggregate Bond Index declining 2.2%. The Fed announced a reduction in their monthly bond purchases by $10 billion. The 10-year Treasury yield is in the 2.9% range currently. We believe it will drift higher to around 3.5% by the end of the year in anticipation of higher rates.

We recommend that you review your overall equity and fixed income allocation to make sure it is appropriate for you given your risk tolerance and time horizon. Remember to keep a long-term focus and not worry about the short-term fluctuations.

PORTFOLIO MANAGEMENT

Our portfolio management style places an emphasis on managing risk in an effort to maximize return over the long-term. We do this by diversifying the portfolio among and across different asset classes. This diversified approach should allow the portfolio to significantly outperform in down markets and slightly underperform in up markets. Our goal is to achieve an average annual return of more than 8% over the long-term. GFM portfolio returns far exceeded that goal in 2013.

Our inverse bonds worked beautifully as the 10-year yield rose in 2013. Although the Barclay's Aggregate Bond Index was down 2%, our fixed income returns were positive in the 1-2% range. We are very pleased with these results. We recently added a market neutral fund and a convertible fund to our Tactical Bond category in an effort to increase the yield on the fixed income side of the portfolio in this rising interest rate environment.

Our domestic returns were impressive in 2013. After a 30% gain in our U.S. small cap funds in 2013 and a P/E that expanded to 22 times earnings, we lightened the exposure in December. In January of 2013, we dropped our international emerging exposure down to about 2% due to our concerns over China. The money was moved to international developed small-cap. This turned out to be a great move as the emerging markets were down about 3% and our international small-cap funds were up more than 32%.

We believe that there is an opportunity in international emerging markets. We have taken the proceeds from the U.S. small cap space and increased our international emerging allocation. The forward P/E ratio in emerging markets is roughly 10.2 times earnings. Many analysts believe that it is still early for these markets, but we believe a lot of the bad news is already priced in and we can't pass up these very low valuations.

FINANCIAL PLANNING

The beginning of a New Year is a great time to review your current financial situation. Taking time to assess where you are today and what you want your financial life to look like can help pave the way for future success. An effective way to accomplish this is by establishing and maintaining a personalized financial plan. Some of the areas to consider in your financial plan are:

- Maintaining your Financial Statement; a written inventory of all of your assets and liabilities.
- Saving and investing the right amount annually to reach your goals.
- Investing in the most strategic types of accounts to achieve your goals.
- Ensure you have adequate life and/or disability insurance coverage in the event that something should happen to you or your significant other.
- Review your property & casualty insurance coverage with your agent.
- Create or update your Estate Plan.
- Review your account login credentials, professional contacts and Financial Statement with your spouse and/or significant other.

Designing a financial plan that is specific to your life can transform your financial visions into a reality; as well as provide peace of mind knowing that important decisions have already been made. Talk to your Fee-Only planner today to help you get started.

GALECKI FINANCIAL MANAGEMENT

FINANCIAL SENSE
First Quarter 2014

Company News

Andy Young, CPA

Galecki Financial Management would like to introduce a new member of the team. Andrew (Andy) Young is a Certified Public Accountant. He joined our firm in 2013. Andy is a relationship manager and works with clients in a wide range of services, including asset management and financial planningé with a focus on tax planning.

Andy earned his bachelorôs degree in Accounting in 2010 from Indiana University at Fort Wayne. He returned to school a year later to earn his degree in Finance. After graduation, Andy worked at a local CPA firm specializing in individual and corporate tax returns. In 2011, Andy changed paths and joined a local Ameriprise Financial office to begin working with clients on their investments and financial planning.

Andy is a voting member of the GFM Investment Committee. In addition to working with his Asset Management clients, Andy is working closely with many of our Comprehensive Financial Planning clients conducting tax planning reviews and strategies. His knowledge and experience with the tax code has already saved our clients a significant amount of money.

Andy is a tremendous resource for our staff as well as our clients. The feedback from clients he has worked with on their complex tax situations has been incredibly positive. We believe that our clients will benefit greatly over the next few years with the knowledge and skill that Andy brings to our financial planning department.

- Galecki Financial Management Investment Committee

Special Note: If you would like to receive a color copy of this newsletter, or schedule an appointment with a financial planner, please visit www.galecki.com.