GALECKI FINANCIAL MANAGEMENT FINANCIAL SENSE

	LAST MONTH	LAST 3 MONTHS	YTD
S & P 500 Index	-1.34%	2.91%	13.82%
Russell Midcap Index	-1.21%	2.21%	15.45%
Russell 2000 Index	-0.51%	3.09%	15.86%
Dow Jones Industrial Average	-1.25%	2.92%	15.20%
Morgan Stanley EAFE Index	-3.55%	-0.98%	4.11%
S & P Global REIT Index (ex US)	-3.40%	-5.75%	-1.19%
DJ UBS Commodity Index	-4.71%	-9.45%	-10.47%
Barclays Aggregate Bond Index	-1.55%	-2.33%	-2.44%

INDEX RETURNS

The second quarter of 2013 produced domestic equity gains, while most other asset classes suffered losses. The S&P 500 had a 6% correction during the quarter yet still posted a solid gain of 2.91% for the three month period. Mid cap stocks as measured by the Russell Midcap Index were up 2.21% in the quarter and are now up 15% on the year. Small cap stocks as measured by the Russell 2000 index gained 3.09% in the quarter and are now up 15.86% on the year.

International equities continued to struggle in the second quarter. Emerging markets in particular posted big declines with the MSCI Emerging Markets index dropping 8.08% for the quarter which gives it a return of -9.57% on the year. International Developed markets as measured by the MSCI EAFE index also dropped 0.98% in the quarter and are now only up 4.11% on the year. Real Estate and Commodities both struggled in the quarter posting declines of 3.4% and 4.7% respectively. Commodities are now down 9.45% on the year.

The 10-year Treasury yield began its ascent in the second quarter and bond prices declined accordingly. The Barclays Aggregate Bond Index dropped 2.33% in the quarter and is now down 2.44% on the year.

ECONOMIC REVIEW AND OUTLOOK

The economy grew in the first quarter at an annualized rate of 1.8% as measured by Real Gross Domestic Product. The economy continues to plow along and produce gains, even though government spending is declining. Early estimates for the second quarter are in the 1.5% to 2.0% range.

The Index of Leading Economic Indicators rose 0.1% in May following a 0.8% increase in April. The Index is up 1.9% over the last six months with seven of the ten components advancing. This suggests the economy should continue to expand in the second half of 2013. Industrial Production was unchanged in May after decreasing 0.4% in April. It is now up 1.6% over the last twelve months. The capacity utilization rate (measure of factory space in use) dropped 0.1% in May to 77.6%, which is 2.6% 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 is improving. The labor force in the U.S. stood at 155.2 million in April, meaning that 63.3% of the working population (16+) is currently employed or unemployed. Non-farm payrolls increased 195,000 in June. The unemployment rate remained at 7.6%. Weekly initial unemployment claims are around 360,000, well below the key 400,000 level.

The ISM manufacturing index was at 50.9% in June. This was an increase of 1.9 percentage points from the May reading of 49%. A reading above 50% suggests an expanding manufacturing sector. The ISM Non-Manufacturing index came in at 52.2% in June which was 1.5 percentage points lower than May.

The housing market has been on a tear over the last year. Building permits (an indication of future construction) declined 3.1% in May to an annual rate of 974,000. This is still roughly 17% higher than a year ago. In addition, new home sales rose to an annual rate of 476,000 in May. This was 2.1% higher than April and is 29% higher than the May 2012 estimate of 369,000. There is only a 4.1 month supply of homes for sale, which is well under the 6 month historical average.

Things are stabilizing from an international perspective. The JP Morgan Global Manufacturing PMI is now at 50.6%. This represents slight global expansion. The Eurozone appears to be improving while emerging economies like China (48.2), Korea (49.4) and Taiwan (49.5) all have PMI readings below the key 50% level.

EQUITY AND BOND MARKETS

The second quarter saw the equity markets correct, and subsequently recover. We wrote about this in our last newsletter. ñIt is very likely that we could see a short-term correction in equities. However, we do not believe that the correction will be overly severe and it is entirely too difficult to time.ò Stocks can get over-extended but as long as valuations look good, we tend to keep our long-term approach and ignore the short-term fluctuations.

The S&P 500 had a forward P/E ratio of about 14 times earnings at the end of June. This is still slightly under the 20-year average of 14.9. Businesses are still running fairly lean and consumer demand has remained strong. This is translating into record profits for domestic companies.

International markets have really struggled the first half of this year, but we believe that they are attractive at these levels. Economic activity is improving in almost all of Europe and their valuations look compelling. The EAFE Index currently has a forward P/E ratio of 12.5 versus their 10-year average of 13.0. They also have a dividend yield of 3.4%. Although emerging economies are still cooling, their market valuations are also beginning to look quite attractive. The Emerging Market Index P/E ratio is down to 9.8 versus their 10-year average of 10.8.

Commodities have been crushed with the slowdown in the emerging economies. We believe they are poised for a good rebound in the second half of this year. Global Real Estate also had a difficult second quarter but should still be a key component of a diversified portfolio.

The bond market finally made a move in the second quarter with the 10-year Treasury yield jumping from 1.6% to more than 2.6%. This upward move in yields caused existing prices to drop quickly. The Barclays Aggregate Bond Index has declined more than 2.4% on the year. Further declines are likely over the next few years as rates should continue to move higher.

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.

GALECKI FINANCIAL MANAGEMENT

FINANCIAL SENSE

Third Quarter 2013

PORTFOLIO MANAGEMENT

We continue to manage our portfolios by utilizing a diversified, long-term approach that will yield solid results with reduced volatility. We are not trying to hit a home run with any one particular asset class or fund. We simply want our clients to achieve their expected rate of return that we have assumed in their financial plans. We were quite pleased with double digit returns last year, and we are on pace for comparable results in 2013.

Domestic stocks have been the best performing asset class by far in 2013 as noted earlier. For a portfolio to be up as much as the S&P 500 this year, it would need to be 100% U.S. equity only. This is not a diversified approach and carries with it much more risk. We will continue to stick with our diversified strategy and continue to provide solid returns with less risk. Meanwhile, our domestic equity funds have done extremely well so far this year.

International stocks struggled in the first half of the year and pulled down portfolio returns. We have increased our developed international exposure as we believe Europe is attractively priced and should begin to recover over the next 18 months. Emerging equities may also be closer to bottoming at these levels.

Our Alternative piece of the portfolio struggled in the first half of the year with commodities declining in value. We believe they are attractive at these levels and should recover in the second half of this year. The global real estate fund also cooled, but we still like the diversification and the current 6.4% dividend yield.

Our inverse bond notes are working incredibly well. These notes were designed to increase in value as the 10-year Treasury yield moved higher. They are the perfect hedge for a rising interest rate environment. Our fixed income returns are roughly flat on the year even though the Aggregate Bond Index is down 2.4%.

FINANCIAL PLANNING

Melanie Colwell, CFP® will be hosting the "*Your Prosperity Picture*" interactive women's workshop on Tuesday October 1 at 6:30 pm. Prosperity is about being successful- not just with your money, but with your life, and this workshop will focus on both. It is designed to help individuals overcome the obstacles of negative thinking about money, and being stuck in old financial patterns that aren't working. Instead, *Your Prosperity Picture* will help clarify the vision of your life and your money, and refresh your motivation to take action. You will leave with everything you need to potentially transform your financial vision into a reality!

What can you expect during the Workshop?

- Learn how the Five Step System can help you manage your money, design your life and create your future
- Hear how you can use the latest developments in brain science to help you get closer to achieving your financial goals
- Complete a self-assessment to remind yourself of your personal biggest financial opportunities and challenges
- Take advantage of the Prosperity Tool Kit and workbook, designed to help you with saving, investing, insurance, estate planning and asset allocation
- Create your own "Prosperity Picture" to serve as a personal motivator and financial roadmap
- Take some time to enjoy your own financial journey

This is not your typical financial presentation. There will be no saleôs pitch. It is simply an opportunity for us to remind ourselves what is most important in our lives and how we can use our money to meet some of our goals.

We will also have some fun during the process. If you are interested in a round table - interactive discussion over wine and dessert, we would love for you to attend. Seating is limited, so please contact Becky today at becky@galecki.com or (260) 436-8525 if you are interested in learning more about this exciting event, or would like to reserve a space.

Company News

Our office participated in the Fort Wayne Sport Clubôs second annual Kickball Tournament benefitting the Turnstone Center for Children and Adults with Disabilities. Formerly known as the Allen County Society for Crippled Children, Turnstone has been meeting the needs of children and adults with disabilities for over 68 years. Turnstone offers Therapy ï Speech, Physical, Occupational and Aquatic, Adult Day Services, Kimbrough Early Learning Center, Preschool, Childcare, Health and Wellness Center, Sports and Recreation and Case Management.

We were excited to participate in an event that supports a great local charity organization. This was our first team effort at kickball and we have a long way to go from a performance perspective. We lost all three games easily and it would not surprise us if a ìMercy Ruleî is implemented for next year. Either way, we sported very colorful socks and enjoyed the day tremendously. We just hope the game highlights are not posted on You-tube.

- 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/our-newsletter.