POLARIS
WEALTH ADVISORY GROUP

The Polaris Perspective

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2013 Market Outlook

Trying to predict the future with any kind of consistency is impossible. There are a lot of people that try to predict the stock market's price movement to make a name for themselves. As I like to say, "A broken clock is correct twice a day." In other words, if you make a prediction enough times, you'll eventually be correct. So the outlook that I write is not meant to be a perfect prediction of the future or a means to make a name for myself, but rather to act as a guideline of the good and bad fundamentals that could affect investors as they navigate the 2013 markets. In the coming weeks, we will use this outlook as a means to keep you informed.

Key Themes for our 2013 Market Outlook:

- While the fiscal cliff was averted, the **tax increases** found within the American Taxpayer Relief Act of 2012 **will have a larger drag on the economy than most economists** predict. The projected GDP is 2.6%. I think GDP will be closer to 2.3% for 2013.
- While the markets are off to a strong start, I think that **February and March will be difficult months in the market**. The **debt ceiling** and the **automatic spending cuts** are like dark clouds on the horizon. As we know from experience, the stock market doesn't like uncertainty. The closer that we get to either of these deadlines without a compromise, the higher the volatility of the market and the higher the likelihood of a market correction.
- According to recent government studies, **our country will run out of money on February 15th** unless a compromise can be found to the debt ceiling. I think a compromise will be found, but only in the 11th hour (just like the fiscal cliff and the last debt ceiling debate in August of 2011).
- After Democrats and Republicans battle over the debt ceiling they will immediately have to address the automatic spending cuts set to begin in March. The automatic spending cuts were supposed to start on January 1st, but they were deferred as part of the fiscal cliff negotiations. Once again, **a compromise will be found at the last minute.**
- **Failure to have cooperation** amongst both parties in both circumstances **could send the markets into a tailspin**, with downside risk of 1350 on the S&P 500.
- Once we have cleared the debt ceiling and automatic spending cut hurdles, we will see the markets rally. The S&P 500 will **finish the year at or above levels found before the financial crisis began.**
- The Federal Reserve will continue to their "highly accommodative stance on monetary policy." This means that you can **expect Fed Funds rates to remain at their current levels for most or all of the year.** Minutes from the December FOMC meeting, however, suggest that Quantitative Easing (QE) could be reduced by mid-year.
- There is a **12.9% consensus estimate for earnings growth for S&P 500** earnings for 2013. This is relatively high given the economic predictions. Given the monetary policy and current political environment, we believe that this earnings estimate is obtainable.
- **Europe will remain in a recession for all of 2013**, even though some of the larger names (like Germany) will have small but positive economic activity. The region as a whole will continue to stabilize and position itself for a positive 2014.

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One of the keys to being a good portfolio manager is not insisting that you are correct. Ultimately, the markets price will dictate if you are correct or not. These are my best guesses to what we can expect for the year, but I am not married to any of my statements. There are many landmines that could derail us from a good year in the markets. At Polaris Wealth, we refer to our investment style as “risk-on, risk-off” investing. We will continue to evaluate the risks that we see that will have impact the broad based mar-kets and will invest accordingly.

As always, I welcome your comments. Please feel free to write or call.

Sincerely,
Jeff