PENCE WEALTH MANAGEMENT
Planning for Your Dreams

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PENCE PERSPECTIVES - *August 2013*

Bottom Line Up Front:

In our December Newsletter, we predicted the outcome of the Fiscal Cliff debate and the fact that certain components of the COMPRESSION holding down the US stock market and economy were beginning to fall off (see chart one). In April, at the annual luncheon, we discussed the fact that markets would most likely be volatile but positive and that the bond market would be volatile and negative (see chart two). These things have come to pass. We also think these trends will continue for the remainder of the year. The fundamentals of the US economy will continue to improve slowly and steadily, more like a slowly moving freight train than an airplane trying to take off. For the next several months, every breath of any member of the FED takes will be analyzed to the molecule in order to divine the amount of reduction in Quantitative Easing (**QE**) to come and when. As we get later in the year, congressional hyperbole over the debt ceiling will begin once again to become louder. The key thing to remember is that these two issues affect market volatility in the short term but they do not derail the recovery in the long run. It is basically this: The economy is getting better. The FED will probably not reduce its asset purchases of $85 billion or raise interest rates until they are sure that ultra low rates have done their job. The FED will risk inflation before they will risk the recovery. We expect the general direction of the stock market to be up and the general direction of the bond market to be flat to down. So that is what to expect for the next several months.

Chart One

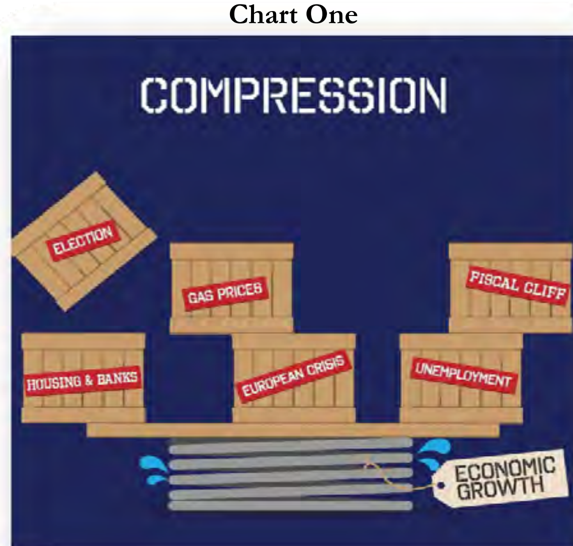
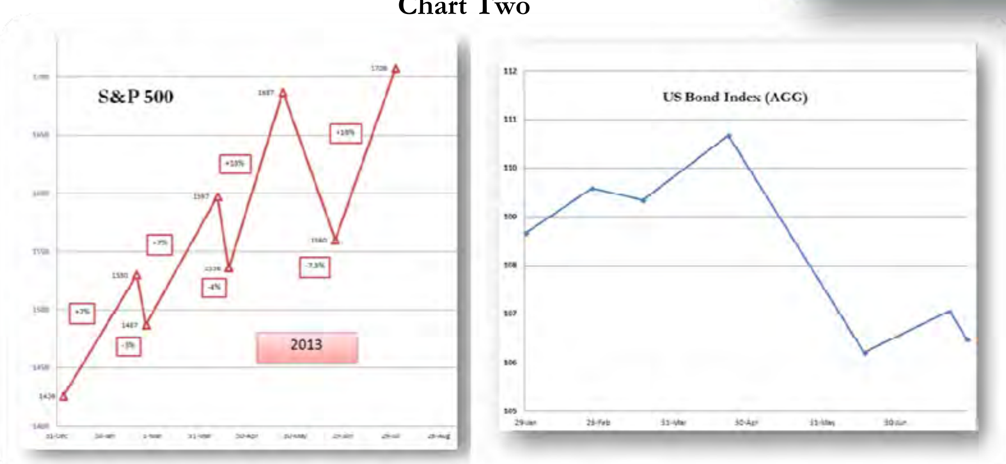


Chart Two



The way we see it:

At the April Luncheon, we talked about increasing market volatility mainly caused by whether or not the FED will end its massive asset purchase program quicker than it should. In June, we saw a -7.5 percent market correction from all time market highs, only to witness a complete recovery in July. For the next several months market volatility is going to be more frequent. We need to embrace it, manage it, and not be a victim of it. When you turn off all the noise, there are four big indicators to look at:

Chart Three

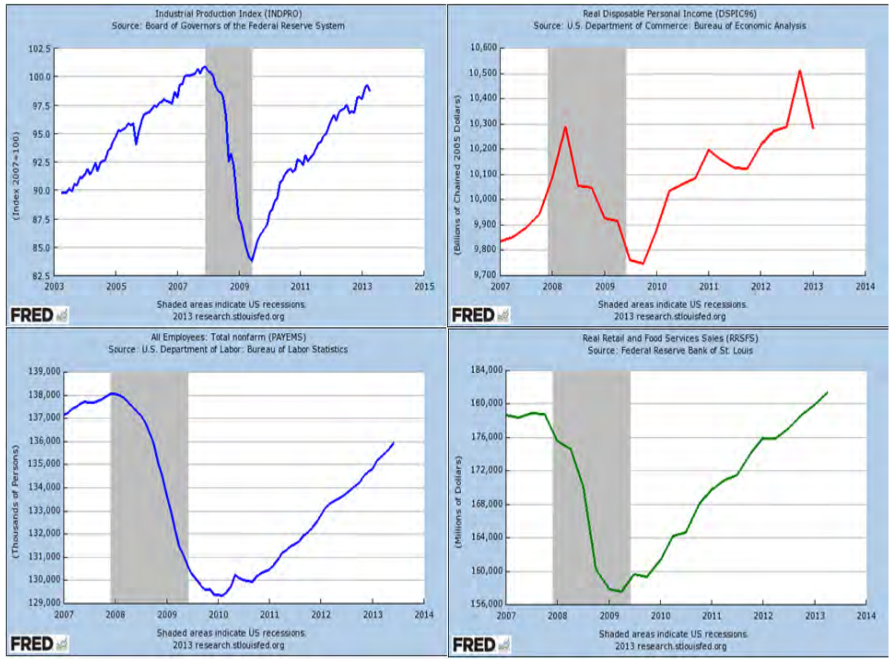


Chart Four

Industrial production, employment, disposable income, and **real retail sales** (see chart three). These four elements are evidence of a slow but consistent economic recovery that is translating into more positive consumer sentiment (see chart four), which hit a six-year high in July. It is now a positive rather than a negative feedback loop.

Big Knowable Themes:

The big knowable themes that we are paying attention to for the future are: (1) **Industrial re-revolution** in US economy due to shale revolution (cheap energy) along with skilled labor, easy access to raw materials and an abundance of capital. (2) **Housing market recovery**, (3) **e-commerce** retail sales growth, and (4) **emerging markets** along with a **do-over** across central banks. Those are the headlines we follow.

As many of you like to have more detail on our outlook, we will be publishing separate short opinion papers (under the title *Pence Papers*) on each of these issues in the near future and posting them on our website at pencewealthmanagement.com.

Actions:

For our clients with *Strategic Asset Management* (SAM) accounts where we manage with full discretion, depending on your individual situation and account, we will continue to tactically reduce bond positions and increase equity positions. We will continue to buy shares of companies that we believe are undervalued as the opportunity arises. We will continue to focus on portfolios that generate positive cash flow so that it may be reinvested to take advantage of future growth.

For our clients who hold brokerage accounts, **if you are interested in a similar fee-based strategy please contact your advisor.**

If you are not yet a client**, and are interested in learning more about our services, please contact Susan Herman (949) 660-8777 ext 100 or** susan.a.herman@lpl.com **to schedule an appointment.**

I strongly encourage you to attend our annual client luncheon next year on **May, 3rd 2014**. It is at this annual event where I lay out our key thoughts for the entire year and those clients and potential clients who attend always find it rewarding and informative. If you would like to receive an invitation please email anne.godfrey@lpl.com.
As Pence Wealth Management embraces the digital age, we encourage you to like us on Facebook, follow us on Twitter and check our daily blog on our website www.PenceWealthManagement.com/blog.
For our clients, friends and prospective clients we wish to remind you that, once again, we have been recognized by Barron's Magazine as one of the top Financial Advisors in the Nation (Barron's criteria: based on assets under management, revenues generated by the advisor and quality of their practices).

We are accepting new clients, and the greatest compliment or gratitude that you can show us is the referral of a friend or family member. If you would like a hard copy version of this newsletter to pass on, please contact Anne Godfrey anne.godfrey@lpl.com or (949) 660-8777 ext 116.
We appreciate your trust and the opportunity to be of service.
All the best, ❖

E. Dryden Pence III, CPM®, AIF®
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To receive email communication from Pence Wealth Management:
Please make sure to add no-reply@salesforce.com and anne.godfrey@lpl.com in your email address book