Condor Capital Reviews 4th Quarter 2013

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Domestic stocks rallied amid improving economic data, capping off a strong year.

Government bond yields continued to trend higher as the Fed began to taper its quantitative easing initiative.

Interest rates are likely to trend higher in the coming years but some bond sectors remain attractive. GDP growth should be solid next year and equity valuations are not excessive.

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Domestic stocks rallied in the quarter, despite a 16-day government shutdown, as the unemployment rate fell to 7.0% and GDP growth accelerated to an annualized 4.1%. The S&P 500 Index closed at a new record high, gaining 10.51% during the quarter and capping off a year that saw the Index jump 32.39%.

For the year, smaller companies outperformed, with growth-oriented stocks leading the charge higher. The healthcare sector outperformed, led by biotech firms and names poised to benefit from the looming Affordable Care Act. Conversely, the utilities and telecommunication sectors lagged as investors migrated towards names with stronger ties to expanding economic growth. Although they lagged U.S. stocks, developed international equities, as represented by the MSCI EAFE Index, returned 22.78% in 2014, led by a furious rally in the Japanese stock market. Amid fears of slowing growth and the potential impact of tighter monetary policy in the U.S., emerging market stocks disappointed over the past year, with the MSCI Emerging Market Index falling 2.60%.

Citing improvement in the labor market, the Federal Reserve announced it would reduce its pace of bond buying by $10 billion per month. However, the Board strengthened its commitment to keeping short-term rates low, noting that such a stance may be warranted even after the unemployment rate reaches its target level of 6.5%. Abroad, with growth remaining anemic and inflation running below its 2% target, the European Central Bank lowered its key interest rate to a record low of 0.25% and hinted that it could take further actions to solidify the Union's nascent recovery.

Against a backdrop of stronger economic data and reduced monetary stimulus, the yield on the benchmark 10-year Treasury continued to rise, finishing the year at 3.03% - the highest since July 2011. For the year, the broader bond market turned in its weakest performance in two decades. Although they rallied in the fourth quarter, investment grade bonds fell 1.52% for the year, as represented by the Citi Corporate Bond Index. Junk bonds, on the other hand, continued to rally as credit spreads narrowed. The CSFB High Yield Index bucked the negative trend and rose 7.53% in 2013. Municipal bonds got a reprieve during the quarter, but the Lipper Municipal Fund Index still fell 3.84% for the year amid interest rate concerns and jitters over Detroit's bankruptcy.

Outlook – While the Federal Reserve began to taper its quantitative easing initiative, its dovish forward guidance reassured investors that monetary policy will remain accommodative for some time. Still, we continue to believe that interest rates will broadly trend upwards over the intermediate-term. Although higher prices and narrowed credit spreads indicate that returns may be more muted, high yield bonds and floating rate notes remain attractive on a relative basis considering the low 0.7% default rate registered by junk bonds last year. Municipal bonds also hold potential after a tough year, as credit concerns should fade. They sport compelling after-tax yields and the supply/demand technicals appear favorable looking forward. Our view on local currency emerging market bonds has turned negative, though, as they will likely feel an outsized impact of tighter Fed policies.

In a year fraught with political disaccord, Congress ended the year on a positive note, agreeing to a two year budget pact. With a degree of uncertainty alleviated, a fading impact from last year's tax hikes, and rising household wealth, thanks to higher home prices and a strong stock market, the U.S. appears poised for stronger growth in 2014. GDP growth may have further upside if companies' confidence in the economy improves, which could spur them to deploy some of their record cash hoard in the way of capital investment. Although equity valuations have risen, we do not view them as excessive considering the current level of corporate profitability, particularly in comparison to fixed income. Furthermore, earnings are projected to grow at a steady clip in the coming year. Although stocks are unlikely to repeat the banner year they saw in 2013, they remain attractive for the intermediate-to-long term.

See disclaimer on final page

Increase in small business tax credit

The maximum tax credit available to qualifying small employers (no more than 25 full-time equivalent employees) that offer health insurance to their employees increases to 50% of the qualifying employer's premium costs (35% for tax-exempt employers) on January 1, 2014. This is an increase from the maximum credit of 35% (25% for tax-exempt employers) that began in 2010.

What's in Store for Health-Care Reform in 2014

While the Affordable Care Act (ACA) became law in 2010, several of the more substantive provisions of the law don't take effect until 2014. Here's a review of some of the key parts of the ACA that are scheduled to begin in 2014.

Individual Mandate

The ACA imposes a shared responsibility mandate, which requires that most U.S. citizens and legal residents of all ages (including children and dependents) have minimum essential health coverage or pay a penalty tax, unless otherwise exempt. The monthly penalty is equal to the greater of a declared dollar amount ($95 in 2014) or a percentage of the individual's gross income.

Note: *The employer's mandate to provide coverage for employees was also scheduled to begin in 2014; however, the requirement will not be enforced until January 2015.*

State Exchanges

The ACA requires that each state establish state-based American Health Benefit Exchanges for individuals and Small Business Health Options Program (SHOP) Exchanges for small employers. The Department of Health and Human Services will establish Exchanges in states that do not create the Exchanges. The general purpose of these Exchanges is to provide a single resource in each state for consumers and small businesses to compare health plans, get answers to questions, and enroll in a health plan that is both cost effective and meets their health-care needs.

Exchanges may only offer qualified health plans that cover essential benefits, limit out-of-pocket costs, and provide coverage based on four levels of cost sharing--bronze, silver, gold, and platinum. Also, tax credits and cost-sharing subsidies will be available to U.S. citizens and legal immigrants who buy health insurance through the health Exchanges.

Insurers must provide guaranteed issue and renewability of coverage

All individual and group plans must issue insurance to all applicants regardless of health status, medical condition, or prior medical expenses. Insurers must renew coverage for applicants even if their health status has changed. Grandfathered individual plans are exempt from these requirements. Grandfathered plans are those that were in existence prior to the enactment of the ACA (March 2010) and have not been significantly altered in subsequent years.

In the past, insurers used pre-existing medical condition provisions to deny coverage for care related to the condition (pre-existing condition policy exclusion), increased the premium to cover the condition, or denied coverage altogether. Beginning January 1, 2014, the ACA prohibits insurers in group markets and individual markets (with the exception of grandfathered individual plans) from imposing pre-existing condition exclusions.

In keeping with the guaranteed availability of coverage, insurers may not charge individuals and small employers higher premiums based on health status or gender. Premiums may vary only based on family size, geography, age, and tobacco use.

Essential health benefits

All nongrandfathered small group and individual health plans must offer a package of essential health benefits from 10 benefit categories. The categories include ambulatory patient services, emergency services, hospitalization, laboratory services, maternity and newborn care, mental health and substance abuse treatment, prescription drugs, rehabilitative services and devices, preventive and wellness services, and pediatric services, including dental and vision.

Other policy provisions

The ACA also imposes several requirements and eliminates other provisions commonly found in insurance policies:

- Group and individual policies (including grandfathered plans) may not impose waiting periods longer than 90 days before coverage becomes effective.
- Annual deductible for small group (fewer than 50 full-time equivalent employees) health plans (excluding grandfathered plans) must not exceed $2,000 per insured and $4,000 per family. These amounts are indexed to increase in subsequent years.
- The most you'll pay annually for out-of-pocket expenses (deductibles, coinsurance, and co-pays) for all individual and group health plans (excluding grandfathered plans) cannot exceed the maximum out-of-pocket limits for health savings accounts ($6,350 for individual/$12,700 for family in 2014).
- All group health plans and nongrandfathered individual health plans can no longer impose annual or lifetime dollar limits on essential health benefits.

If you have questions about how long to keep copies of your federal tax returns and related records, see IRS Publication 17, Your Federal Income Tax. And because states may have different rules, check with your state's tax authority to find out how long to keep state tax returns and records.

Think Outside the Shoe Box When Organizing Financial Records

If you've ever had trouble finding an important financial document, you know why it's necessary to keep your financial records organized. Less clutter means less stress, and though you'll need to commit a bit of time up front to organize your files, you can save time and money over the long term when you can find what you need when you need it.

What records do you need to keep?

If you keep paperwork because you "might need it someday," your files are likely overflowing with nonessential documents. One key to organizing your financial records is to ask yourself "Why do I need to keep this?" Documents that you should retain are likely to be those that are related to tax returns, legal contracts, insurance claims, and proof of identity. On the other hand, documents that you can easily duplicate elsewhere are good candidates for the shredder. For example, if you bank online and can view or print copies of your monthly statements and cleared checks, you may not need paper copies of the same information.

How long should you keep them?

A good rule of thumb is to keep financial records only as long as necessary. For example, you may want to keep ATM receipts only temporarily, until you've reconciled them with your bank statement. If a document provides legal support and/or is hard to replace, you'll want to keep it for a longer period or even indefinitely.

Records that you may want to keep for a year or less include:

- Bank or credit union statements
- Credit card statements
- Utility bills
- Annual insurance policies

Records that you may want to keep for more than a year include:

- Tax returns and supporting documentation
- Mortgage contracts and supporting documents
- Receipts for home improvements
- Property appraisals
- Annual retirement and investment statements
- Receipts for major purchases

Records that you may want to keep indefinitely include:

- Birth, death, and marriage certificates
- Adoption papers
- Citizenship papers
- Military discharge papers
- Social Security card

Of course, this list is not all-inclusive and these are just broad guidelines; you may have a good reason for keeping some records for a shorter or longer period of time.

Where should you keep them?

Where you should keep your records and documents depends on how easily you want to be able to access them, how long you plan to keep them, and how many records you have. A simple set of labeled folders in a file cabinet works fine for many people, but electronic storage is another option if space is tight.

For example, one easy way to cut down on clutter and still keep everything you need is to store some of your files on your computer. You can save copies of online documents or purchase a scanner that you can use to convert your documents to electronic form. But make sure you keep backup copies on a portable storage drive or hard drive, and make sure that your files are secure.

Another option to consider is cloud storage. Despite its lofty name, cloud storage is simply an online backup service that allows you to upload and store your files over the Internet, giving you easy access to information without the clutter. Information you upload is encrypted for security. If you're interested, look for a company with a reliable reputation that offers automatic backup and good technical support, at a reasonable subscription cost.

Staying organized

Keeping your financial records in order can be even more challenging than organizing them in the first place. One easy way to prevent paperwork from piling up is to remember the phrase "out with the old, in with the new." For example, when you get this year's auto policy, discard last year's. When you get an annual investment statement, discard the monthly or quarterly statements you've been keeping. It's a good idea to do a sweep of your files at least once a year to keep your filing system on track (doing this at the same time each year may be helpful).

But don't just throw your financial paperwork in the trash. To protect sensitive information, invest in a good quality shredder that will destroy any document that contains account numbers, Social Security numbers, or other personal information.

Whatever system you choose, keep it simple. You'll be much more likely to keep your records organized if your system is easy to follow.

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Is there anything I can do to lower my auto insurance bill?

Yes. Insurance companies base auto insurance rates on a variety of criteria, such as your age, driving record, residence, and even the type of car that you drive (though factors vary from state to state). If you find that you're paying more than you think you should for auto insurance, there are ways you can lower your premiums.

- **Shop around:** Auto insurance rates vary from company to company, sometimes significantly. As a result, a good way to save money is to look into whether another insurer offers the same coverage at a lower rate.
- **Consider raising your deductible:** For the most part, the higher your deductible, the lower your premiums. Before you raise your deductible, though, you'll want to be sure you can cover the out-of-pocket expense should an accident occur.
- **Eliminate unnecessary coverages:** For example, if you have an older car, it may make sense to drop your collision and comprehensive coverage since a claim paid by your insurance company may be minimal and might not exceed what you'd pay in premiums and deductibles. Or, maybe you are paying your insurer for roadside assistance coverage that you already have through a separate road and travel club membership.
- **Consider changing the type of car you drive:** The type of car that you drive directly impacts what you pay for insurance. Typically, newer, higher-priced cars and sport/high-performance vehicles cost more to insure than used/lower-end models.
- **Check for discounts with your insurer:** Depending on your circumstances, you may be eligible for one or more auto insurance discounts. For example, your insurer might provide discounts to those with a safe driving record or to those who insure more than one car with them.

One final note: don't be tempted to save money on your auto insurance by lowering your liability coverage limits (although state minimums do apply). Having less than adequate amounts of liability coverage can expose you personally to claims for other people's losses--which in the case of a serious accident, can be significant.

My teenage daughter just got her driver's license. Will my auto insurance rates go up?

The short answer is: yes. Anytime you add an extra driver to your policy, your rates will increase. However, you may end up paying even more when you add your daughter to your policy, since teenage drivers are some of the highest-risk drivers on the road. According to the most recent statistics from the National Transportation Safety Board, teen drivers have represented less than 7% of the driving population but have accounted for more than 13% of drivers involved in all deadly crashes. (Source: National Transportation Safety Board, October 2013).

Fortunately, there are some steps you can take to help make insuring your teen a bit more affordable.

- **Take advantage of policy discounts:** Your first step should be to ask your insurer if your teen qualifies for any policy discounts that are specifically designed for teens. For example, many insurance companies offer discounts (usually around 10% to 15% off of premiums) for teens who complete a driver's education course, obtain a certain grade point average, or participate in a safe driver program.
- **Consider the type of car your teen will be driving:** Typically, new cars are more expensive to insure than older ones. As a result, you may want to consider purchasing an older, less expensive car for your daughter to drive. You may even be able to save more money by forgoing collision coverage on an older vehicle.
- **Consider whether an individual policy makes sense:** In the future, circumstances may arise where it may be more affordable to insure a teen under his or her own individual policy as opposed to listing him or her as an insured on your policy (e.g., he or she gets into an accident or has numerous motor vehicle infractions). When the time comes, ask your insurance agent to help you run the numbers to see which option is more affordable.
- **Be sure to shop around:** You'll want to take the time to compare the rates offered by different insurers. Insurance company rates vary widely, so it often pays off in the end to do your homework.