



The Benedict-McLoughlin Report 2014 Investment Outlook

By Christopher Benedict, CFA

- The majority of global equities did well in 2013, despite a number of potential worries...worries that generally remain as we enter 2014.
- The global economy and central banks will remain intertwined for the foreseeable future.
- Investors should temper their return expectations for 2014...while at the same time be ready for some volatility along the way.

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“Climbing the Wall of Worry” is an old Wall Street phrase that describes an upward trending stock market during times of seemingly obvious risks...2013 will go down as a classic example of this in the U.S. The S&P 500 climbed over 30% and the other developed markets around the world also did well. The “wall” was built on some fairly strong “worries” including the eventual unwinding of unprecedented levels of monetary stimulus (i.e., tapering), ongoing debt ceiling fights in Congress, stubbornly high unemployment, lingering European Union concerns and continued turmoil in the Middle East. Any one of these worries taken alone could have been an excuse for a double-digit % market correction. The fact that they all existed concurrently, while the market remained strong, speaks to the existence of some clearly positive influences as well. A healing housing market, still historically low interest rates in the developed economies and a domestic energy renaissance have all helped create a good environment for an economic recovery and the profit growth that typically goes with it. Additionally, while employment growth has been slower than usual, the trend has been positive and this trend appears to be sustainable, absent any shocks, through 2014.

While developed markets were *climbing* the “wall”, equities in many emerging markets (EM) essentially “*Hit* the Wall of Worry”. While the concerns are many (as they have been for decades), the main fear is that the “taper” will cause capital out-flows from EM economies as interest rates normalize in the U.S., causing their currencies to depreciate which, in turn, may lead to tighter monetary policy. Of course, as most EM currencies now float on the open market, this can and has become a self-fulfilling prophecy. An additional concern is that China’s economy may have a hard landing due to the unwinding of their “shadow banking” industry. There is also the perennial geo-political risk like what we have witnessed in Syria, Egypt and Thailand. Of course, any investor must balance these risks against the potential growth of this notoriously volatile sector of the market...currently, the market is saying that the risks appear heavier. Over time, I believe the growth opportunities will reward investors but, I believe it pays to be especially selective at this time.

Looking ahead, it appears the biggest question for investors and the global recovery is how well economic growth holds up as U.S. monetary stimulus is unwound. The Federal Reserve is expected to continue to reduce its bond purchases but, do so as long as the economic data remains relatively strong, particularly as it pertains to the labor market. Interestingly, since the first reduction in bond purchases was announced by the Fed on December 18th, the yield on the 10-year U.S. Treasury Note has actually declined by 0.24% (as of 1/29/13). So, at least for the time being, it seems that investors may have digested the initial shock and are coming to grips that we are headed, albeit slowly, towards a more normalized monetary policy environment. Another consideration is that both Europe and Japan are maintaining an aggressively easy monetary policy and, while some emerging markets are being “forced” to tighten their policies, they may be close to the tail end of this move. Overall, I believe the policy backdrop remains conducive for a continued global economic recovery in 2014.

The Next Leg

The global economy has been recovering since 2010 with the help, of course, of an unprecedented amount of monetary stimulus. First it was the U.S. Central Bank with its zero interest rate policy (ZIRP) and quantitative easing (QE), then it was Europe and now it is Japan. This “Wall of Easy Money” has been built up over many years and I believe it will take many years to fully deconstruct. The recent tapering by the Fed has been incremental and will likely take until 2015 to fully wind down, in my opinion. Then there is the matter of actually raising the Federal Funds rate from 0%. Meanwhile Europe is likely two years behind in their recovery and Japan has embarked on a “no looking back” bond-buying program in an effort to stimulate their long-stagnant economy. The amount of global monetary stimulus has been unprecedented and the risks are many (and potentially unpredictable) as we move forward. However, if the Fed is successful in winding down our QE program without a major economic or financial market shock, then investors will likely become more comfortable with what is going on in Europe and

especially Japan. So far, it appears the market is giving the Fed the benefit of the doubt.

There is a lot of debate on whether the Fed’s aggressive policy has helped or actually hurt the economy. The complete answer likely won’t be discernable for a few more years, however, I would offer that there have been some clear positive influences that have directly helped the economy over the past several years. Probably the most obvious area that has benefitted is the housing market (commercial real estate as well). Mortgage rates have been at or near record lows in recent years which improved affordability. Even after a solid 13.3% year-over-year rise in the S&P/Case-Shiller 20-City Composite Home Price Index through September, affordability remains at a constructive level.¹ Home builders have also been benefitting with housing starts running at an annual rate of 1.11 million units in November, a five-year high (see graph on p.10).² Household formation is rebounding and we are still well below the long-term average which should support a continued rebound in this economically important industry. Low interest rates have also benefitted the auto industry which, like the housing industry, is experiencing a strong rebound after being decimated by the Great Recession. Low financing/leasing costs have been a boon for auto sales and the strength is expected to continue as the average age of passenger cars in the U.S. is at an all-time high of more than eleven years.³ Of course, low rates help any purchase that needs to be financed and it has also allowed businesses to refinance a significant amount of debt at record low rates, thus freeing up capital to re-invest or return to shareholders. The major question remaining for investors is one of sustainability. Are these industries (and the overall economy) now healthy enough to stand on their own without the “training wheels”?

Of course, there are also some risks involved when undertaking such unprecedented monetary policy. While the U.S. government has been enjoying record low interest costs on its debt, it has also piled on a significant amount of new debt since the Great Recession. This debt eventually needs to be paid back (either via re-financing or pay-down) and there may be a point where investors begin to price in a lower quality outlook for U.S. debt if we cannot reign in our fiscal situation.

Additionally, even if we do limit our overall debt growth, if rates keep rising, our bigger debt load will cost us that much more which could siphon funds that would otherwise go to infrastructure investment or social security payments. Relatedly, the abnormally low interest rates also may have been providing “cover” for politicians by potentially allowing them to avoid making tough decisions pertaining to our fiscal health, not to mention allowing for the potential for some mis-allocation of resources. Low interest rates have also hurt the income generation capabilities of people who rely on fixed income investments (mainly seniors). Additionally, some make the case that the Fed’s policies have caused the stock market to rebound strongly which has disproportionately helped the wealthy thus, widening the gap between the rich and poor. The recent State of the Union speech by the President which focused on this subject shows that this is a growing concern. I suspect this issue will be prevalent for the foreseeable future and may affect future tax policy.

Overall, the U.S. and, indeed, the global economy is in much better shape than a few years ago. The transition from an “artificially” supported economy is under way and will likely take many years and have its share of fits and starts. Importantly, the Fed has been very clear that they will remain fully engaged, as necessary. Internationally, emerging markets continue to grow at a faster pace than the developed economies, even factoring in the occasional bouts of turmoil like we are experiencing currently (see graph on p.10). As more consumers around the world increase their purchasing power, companies will continue to tap these markets which should help them increase their profits over time. Of course, this increased growth has put more pressure on many natural resources including energy resources. The recent surge in energy production in the U.S. is helping to alleviate some of this pressure as the increased supply is expected to help keep the price of oil and gas at bay. In fact, the U.S. is expected to be the world’s largest oil producer by 2015.⁴ Because oil is a global commodity, the benefits will be felt by both the U.S. and rest of the world.

Asset Allocation⁵

Of course, before any investor begins to analyze specific markets or securities, a proper asset allocation strategy should be established. Unfortunately, asset allocation often takes a back seat to specific securities or sectors in investment research reports and the financial media. This is a bit counterintuitive as the asset allocation decision is often described as one of the most important decision an investor has to make. Every investor has unique objectives and risk tolerances and constructing an allocation strategy based on these unique characteristics can help minimize unnecessary risk given a certain return objective or, similarly, help maximize the expected return given a certain risk level. The fact that different asset classes and sub-asset classes are not perfectly correlated enables what amounts to be the closest thing to a “free lunch” in the investment world as overall portfolio risk may be reduced by combining asset classes that are uncorrelated. Therefore, it is my contention that a proper asset allocation strategy implemented *and managed* in a disciplined fashion by a qualified investment professional can add significant value. However, it is important to note that even proper diversification does not guarantee a profit or protect against a loss, as 2008 and early 2009 so vividly demonstrated.

I essentially address asset allocation strategy at three levels; long-term (strategic) target allocation ranges, short/intermediate-term (tactical) adjustments within target ranges, and periodic re-balancing. For example, considering a hypothetical investor with a strategic target allocation of 50% stocks and 50% bonds (for the sake of simplicity, ignore other asset classes for the moment), I would target strategic ranges of 35 – 65% for stocks and 35 – 65% for fixed income as opposed to actual fixed-point targets of 50% each. Once a strategic range is established, I then tactically determine where in the range we should be. The more attractive I believe equities are, for example, the higher the allocation within the range. Of course, these ranges also apply to sub-asset classes like small versus large capitalization equities, for example (see table on p.5). Finally, a re-balancing review is done at least annually or following significant market moves.

The philosophical underpinning of my approach to asset allocation is rooted in the belief that the core of an investment portfolio should be strategically positioned for the long-term, given the specific objectives and risk tolerance of the investor. To be sure, wholesale market-timing calls (i.e., shifting entire allocation into all stocks or all cash, for example) have historically proven difficult to execute consistently. However, by allowing subtle, tactical shifts within the strategic ranges, skilled portfolio managers are generally able to take advantage of relative value discrepancies while still leaving room for error. For example, in early 2003, I moved my equity exposure to the high end of strategic ranges because I believed the relative risk/return tradeoff between stocks and investment-grade fixed income significantly favored stocks. Although that turned out to be correct, if equities had continued their downward slide following the Internet bubble and 9/11, an investor's long-term plan should not have been significantly impaired. Compare that to a market timer who may have thought the market bottomed and moved 100% into equities in 2001/early 2002 or in 2008 (pre-Lehman Brothers bankruptcy), only to suffer through significant declines which take many years to make up. Similarly, investors that moved to 100% cash may run the risk of getting back in the stock market too late over the next months or years in order to achieve their long-term return objectives.

Finally, careful monitoring and rebalancing are considered essential components of a disciplined approach. A major benefit of rebalancing, of course, is the potential reduction of overall portfolio volatility. For example, if stocks outperform bonds for a period of time, eventually an investor's allocation to stocks will likely grow to a percentage above the high end of the strategic range. In this case, rebalancing would require trimming stocks and adding to fixed income. Recent examples of this would have been during the stock market run-up in the late 1990s and 2006 - 2007 where trimming stocks and adding to fixed income served investors well while the opposite move in late 2002/early 2003 and late 2008/early 2009 was the appropriate adjustment. After the recent run-up, I believe investors should consider taking advantage of the current time period to do the same thing. By incorporating rebalancing in an asset allocation strategy, an investor is

essentially "forced" to sell relatively dear assets while buying relatively cheap assets. Buying low and selling high has never served an investor wrong. The last dozen years has proven to be a good time period to follow the re-balance discipline as global markets have generally traded in a fairly wide trading range. It will be important for investors to continue to monitor their portfolios as I expect global markets to remain in a fairly wide trading range for the foreseeable future.

Hypothetical Allocation Ranges with a Balanced Allocation*

Asset Class	Minimum (%)	Target (%)	Maximum (%)
Domestic Large Cap Equities	10%	20%	40%
Domestic Small/Mid Cap Equities	0%	5%	15%
International/EM Equities	5%	<u>15%</u>	30%
Total Equities	25%	40%	55%
Tax-Exempt Fixed Income	5%	20%	35%
Global Taxable Fixed Income	0%	10%	25%
High Yield/Floating Rate Fixed Income	0%	<u>10%</u>	20%
Total Fixed Income	25%	40%	55%
Specialty/Alternative/Opportunistic**	5%	20%	35%
Total		100%	

* For illustrative purposes only and should not be construed as a specific recommendation.

** Specialty/Alternative/Opportunistic may include hedge funds, private equity, real estate as well as tactical investments that are shorter term in nature.

Please note that alternative investments, such as hedge funds and funds of hedge funds are made available only to qualified investors and involve varying degrees of risk.

Importantly, many new investment vehicles are making this process easier for the knowledgeable investor. Not only should investors broaden their horizons geographically speaking, I believe they also need to broaden their horizons in terms of investment vehicles as well. Gone are the days where an investor just had to consider stocks, bonds and mutual funds. Today, we have Separately Managed Accounts (SMAs), Exchange Traded Funds (ETFs), closed-end funds, asset-linked Certificates of Deposit and, of course, an increasing number of alternative strategies (for qualified investors). Furthermore, over 2000 international companies are tradable in the U.S. via American Depositary Receipts (ADRs). These choices, while potentially daunting, enable private investors as well as smaller institutions to invest on the same playing field as the largest and most sophisticated institutional investors. From my perspective, these choices enable tremendous flexibility to match specific client objectives with the appropriate investment allocation, the appropriate investment vehicle, and the ability to manage the entire process in the most effective manner.

Current Strategy

While it is rare that realized returns in a given year ever actually land on the “average”, 2014 may just shape up that way for the U.S. equity market. Morgan Stanley’s official year-end S&P 500 target is an admittedly gimmicky 2014 by year-end 2014.⁶ This implies a total return of 11% (9% price movement + 2% dividend yield). Importantly, this implies no multiple expansion of the price-to-earnings (P/E) ratio as earnings are expected to grow by 10%, according to consensus estimates.⁷ However, history suggests that multiple expansion is possible if economic momentum is sustained and other forecasters are incorporating this into their predictions (see graph on p.11). With the Fed still very accommodative, the path of least resistance remains to the upside, in my opinion, but, selectivity will increasingly be key. Industries that benefit from the combination of still-low interest rates and the release of pent-up demand should continue to benefit. I believe housing, autos and banks fit into this category. Additionally, companies involved in the U.S. energy infrastructure build-out as well as companies that benefit from relatively low energy prices should also do well.

Internationally, the European economy has stabilized and appears set for a recovery, albeit a relatively tepid one. Importantly, a rip-roaring recovery may not be a necessary precursor for solid equity gains as overall valuations remain below average and the overall Euro Area profit level would still need to increase 38% just to get back to 2007 levels.⁸ The European Central Bank (ECB) has signaled its commitment to keeping monetary policy accommodative, particularly because inflation is very much under control. In fact, the ECB has cited deflation as a major risk. Generally speaking, it appears that Europe is around two years behind us in their recovery which may mean that they can outperform from here. Japan is also utilizing extraordinary monetary policy in an effort to kick start their economy and inflation. The idea here is to try and devalue their currency, promote inflation and essentially reduce their “real” debt burden, which is massive. While there are certainly opportunities in Japan if they are successful, especially in their export

sector, I continue to believe investors need to be selective.

Emerging markets continue to underperform. On the positive side, most EM economies are growing faster than their developed market counterparts and are expected to do so for years to come. Valuations are also well below average on both an absolute and relative basis, so, a lot of bad news may now be discounted. Of concern, however, is the negative feedback loop of depreciating currencies which has forced some of the EM central banks to raise interest rates in an effort to stem the currency declines as well as to fight still high inflation (part of which is caused by the currency depreciation). Importantly, most of the EM currencies float freely on the open market, so, the adjustment process has been ongoing and this may help us avoid a major crisis à la the 1997 Asian currency crisis where imbalances were building up in countries with fixed exchange rates. Another concern for investors is the potential for a slower than expected economy in China. China recently announced some very positive reforms for the intermediate and long-term. How this transition is managed over the short-term will be important for the performance of Chinese equities. Another concern is their “shadow banking” system which bears watching. It is important to remember that China does not have a municipal bond market and other lending vehicles have been used. Building up this local financing market is one of the goals put in place but, the transition may be lumpy. Importantly, Chinese equities have been discounting many of these concerns for years and any positive signs may bode well for outperformance in 2014 and beyond.

On the fixed income side, investors have had to hold on with both hands for the first time in a while. A very rapid re-pricing of interest rates occurred once the Fed began to discuss “tapering” in May. The yield on the 10-Year Treasury Note increased from 1.63% to 3% in September. The fact that the yield is actually lower since the “taper” actually started in December simply reminds investors that the market is a discounting mechanism. Importantly, the Fed remains involved for the foreseeable future and I

expect the yield on the 10-Year to remain range bound between, say, 2.5% - 3.25% for most of 2014. We continue to keep our portfolio durations relatively short and diverse. Underweighting U.S. Treasuries and other “high quality” bonds still makes sense, in my opinion. “Spread” securities such as high yield and senior bank loans, while not exactly cheap at this stage, are still attractive on a relative basis, in my opinion. Considering the recent turmoil in emerging market currencies, EM bonds may offer some opportunistic buying opportunities in 2014.

Where appropriate, non-traditional investments such as total and absolute return strategies are also an important part of a well balance portfolio, in my opinion. These strategies attempt to achieve a decent return regardless of how equity markets are performing and may help to reduce overall portfolio risk due to their low correlation to traditional equities and fixed income. Please see the tables on the next page and p.13 for a summary of my overweights and underweights.

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Tactical Allocation Recommendations

Equities	Equal	Fixed Income	-1	Alternative Investments	+1
U.S.	-2	Treasuries	-2		
Int'l/Em. Mkts	+2	Inv. Grade Corp./ Muni's	+1		
Growth	Equal	High Yield	+1		
Value	Equal	REITS	-2		
Large Cap	+2	Floating Rates	+2		
Small/Mid Cap	-2				

Legend	
+2	20% Overweight
+1	10% Overweight
Equal	Equal Weight
-1	10% Underweight
-2	20% Underweight

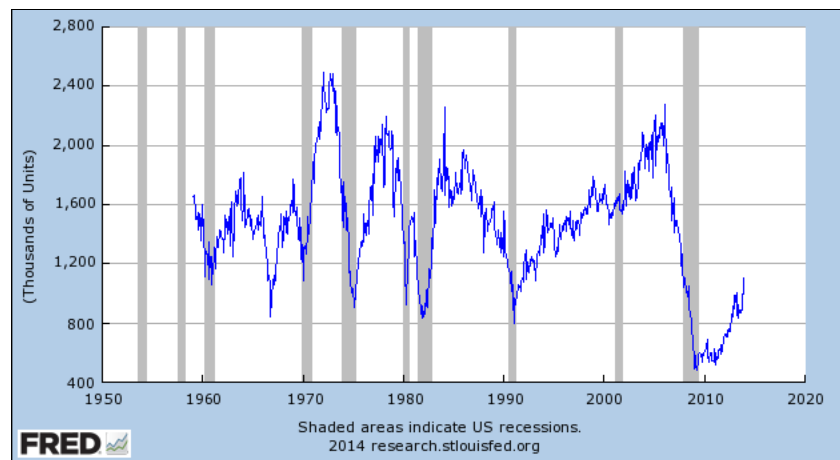
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Things to Watch

- **U.S. Deficit/U.S. Dollar:** Although improving, we continue to run large deficits and it appears that this will improve only modestly over the next year or two. After strengthening considerably during the heart of the financial crisis in 2008 – 2009 and staying relatively resilient in recent years, I expect the U.S. dollar to weaken again over the next several years as we attempt to reduce our significant debt level. Higher growth in Asia may also help the dollar depreciate versus most currencies in this region. I believe China will also continue to allow its currency to appreciate against the U.S. dollar as that country is facing an inflation threat.
- **The “Welfare State”:** Social safety nets play an important role in a modern economy; however, they can also dis-incentivize people from becoming productive members of society. There is an optimal point and any country/economy that goes beyond this point risks developing a culture where risk-taking is less prevalent, which could reduce economic dynamism at the margin.
- **Stimulus—Monetary and Fiscal:** I believe we have already passed the point of maximum accommodation in the U.S. The Federal Reserve is just about out of bullets and they will likely be tapering their massive bond purchases throughout 2014. The continued budget problems at all levels of government (including entitlements) in the U.S. really limits any new fiscal stimulus, in my opinion.
- **Unemployment:** The unemployment rate in the U.S. peaked at 10.1% in 2009 but, still remains at 6.7% (as of 1/1/14) almost five years into a recovery.⁹ Further, this figure has been supported by a decreasing labor participation rate (see graph on p.11) Economists expect unemployment to remain relatively high throughout the recovery. In fact, a broader measure of the unemployment rate, U-6, paints a less optimistic employment situation. However, the Fed will remain accommodative until the statistics improve.
- **Europe:** Europe finally appears poised to move from being a potential source of the next crisis to potentially becoming a positive catalyst that could help move the global economy to the next stage of recovery. While the membership of the European Union may, in fact, be different three years from now, the original reasons for the European Union (efficiency, increased global competitiveness, etc.) are as relevant as ever, in my opinion. Investors should hope for a relatively orderly evolution.
- **U.S. Housing Market:** The statistics appear to be consistent with a healing housing market. Prices have been rising in the past couple of years and housing starts have begun to improve from unsustainably low levels. Overall, I expect a measured recovery for housing over the next several years. After ten years of artificial forces effectively distorting housing both to the upside and downside, I expect a return to a “normal” market to be a stabilizing force for the economy.
- **Protectionism:** The severe global recession and its aftermath has factions in many countries pushing for policies that would “protect” their respective economies. Of course, we have learned that protectionist policies during the Great Depression exacerbated that economic downturn and we have proven the economic benefits of free trade in both theory and practice. I mean, come on, is this not why we educate ourselves?
- **Terrorism:** Clearly, a perennial risk these days and terrorists continue to be active globally. Worst case would result from a terrorist strike using Weapons of Mass Destruction (WMD), either nuclear or biological. A large enough event has the potential to negatively affect globalization and even population growth.

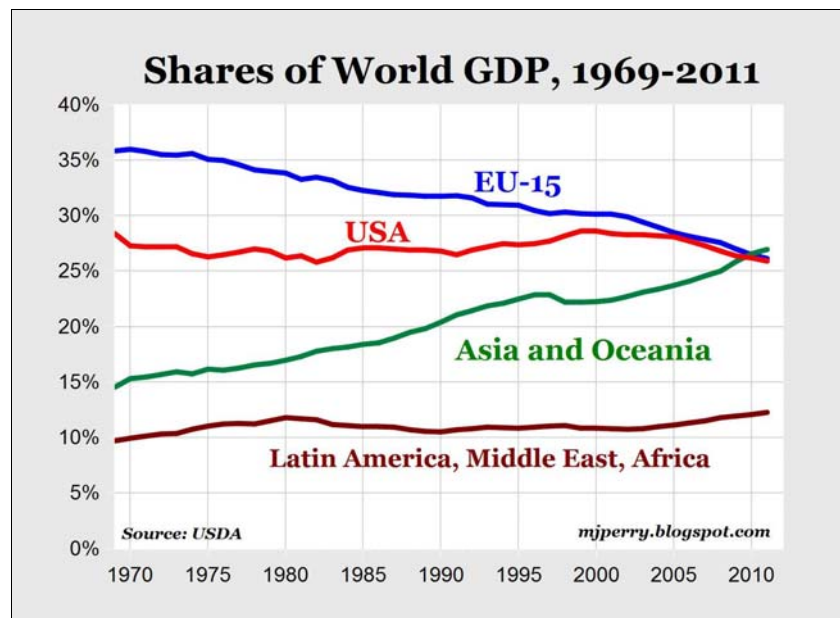
GRAPHS OF INTEREST

U.S. Housing Starts (1959 – 2013)



Source: St. Louis Federal Reserve

U.S. Share of World GDP (1969 – 2011)



Source: USDA, www.seekingalpha.com

2014 Forecast Ranges for S&P 500



Source: FactSet Research, CNN

Labor Participation Rate in the U.S. (1974 - 2013)



Source: Morgan Stanley, Bloomberg

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1. Barron's, 12/30/13.
 2. Barron's, 1/20/13
 3. Gluskin Sheff, Breakfast with Dave, 12/23/13.
 4. Bloomberg News, 1/7/14.
 5. Much of this section is from my 2004 Investment Outlook, Oppenheimer & Co. Inc., 2/16/04.
 6. Morgan Stanley, U.S. Equity Strategy, 1/7/14.
 7. Morgan Stanley, U.S. Equity Strategy, 1/7/14.
 8. Franklin Templeton, 1/1/14.
 9. Bloomberg News, 1/1/14.
 10. LSTA, www.lsta.org, 1/3/14

Summary of Overweights and Underweights

Asset Class/ Industry/Sector	Reason
OVERWEIGHTS	
Absolute/Total Return Strategies	In what I believe will be a relatively modest return environment across asset classes, strategies that are designed to achieve high single digit returns may be additive to overall portfolio returns. These strategies typically have a low correlation to traditional assets, which may help reduce overall portfolio risk.
Large Cap Multi-Nationals	Still cheaper than small caps on many metrics. Large cap multi-nationals are generally in stronger financial shape and are more exposed to global growth, particularly from emerging markets. U.S. based multinationals would get added benefit from a weakening U.S. dollar over time.
High Dividend Yield Equities	Over the long run, dividends have accounted for a significant portion of the total return in equities. I believe this will be the case over the short and intermediate term as well.
China/Emerging Markets (Consumer Focused)	I believe we are in a significant shift of economic “power” from a U.S./Europe driven economic model to one where emerging market consumers decide that they would like a similar lifestyle which they increasingly see Westerners enjoy on the TV/Internet. There is still a very wide per-capita income gap between the emerging and developing markets that I expect will continue to narrow over time. Importantly, this dynamic should create a positive feedback loop for the global economy.
Europe	Europe’s financial system is approximately three years behind the U.S. in regards to de-leveraging cleaning up their balance sheets. The ECB has re-upped its commitment to keep rates low a la the U.S. Federal Reserve, which is positive. Valuations in Europe are cheap on a relative and absolute basis.
Brazil	An opportunistic call after significant underperformance over the past two years. Brazil will host the 2014 World Cup and the 2016 Olympics which symbolizes how much progress this country has made in recent years. Capital investment should get a boost as well as the country prepares for these prestigious events and generally upgrades their sub-par infrastructure.
Energy Infrastructure	The energy infrastructure industry enjoys the combination of robust industry fundamentals and reasonable valuations. Continued energy infrastructure build-out in the U.S. is needed as resource supplies expand and need to be distributed throughout the country and the world.
Corporate/High Yield Fixed Income	In the context of an overall underweight in fixed income, I am overweighting this sub-asset class. Yield spreads have narrowed dramatically since the crisis but still offer some value in the short and intermediate maturities. The senior bonds of certain banks look interesting as the increase of regulatory capital standards puts an extra capital cushion in the lower part of the capital structure.
Floating Rate Loans/Bonds	In the context of an overall underweight in fixed income, I am overweighting this sub-asset class. The floating rate nature of these securities essentially eliminates any duration risk while still yielding almost 4 percentage points above LIBOR. ¹⁰ Many of the existing securities outstanding are trading below par so there is the added potential of capital appreciation as credit markets normalize.
UNDERWEIGHTS	
Long-term Fixed Income	Rates remain low. Real rate of return below historical average. Aggressive rate cuts by the Federal Reserve may stoke higher future inflation. Higher quality bonds relatively expensive versus equities.
U.S. Treasury Securities	Low yields, potential future inflation and increasing supply to fund record deficits pretty much sums it up.
Small Cap Equities	The global nature of large caps (i.e., larger companies derive a greater percentage of their revenues from faster growing emerging markets) and relative valuation continues to favor large caps.
Developed Market Consumer Staples Stocks	Seen as a “safe haven” in the early years of the recovery, they are now expensively valued as a result. Further, other sectors have become more “palatable” as the global economy stabilizes.
Real Estate Investments Trusts (REITs)	The U.S. commercial real estate has stabilized after the meltdown of 2008/2009. However, the recovery continues to be slow and dividend yields are still unattractive, particularly as overall interest rates rise.
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The initial interest rate on an inflation-linked security may be lower than that of a fixed-rate security of the same maturity because investors expect to receive additional income due to future increases in CPI. However, there can be no assurance that these increases in CPI will occur. Some inflation-linked securities may be subject to call risk.

International investing may not be suitable for every investor and is subject to additional risks, including currency fluctuations, political factors, withholding, lack of liquidity, the absence of adequate financial information, and exchange control restrictions impacting foreign issuers. These risks may be magnified in emerging markets.

The value of fixed income securities will fluctuate and, upon a sale, may be worth more or less than their original cost or maturity value. High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues

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Date of first use: 1/31/14