NORTHVIEW ASSET MANAGEMENT

Second Quarter 2013 Market Review

As I mentioned in my brief of 6/21, an unanticipated change in Federal Reserve policy guidance sent shock waves throughout the markets and triggered a broad sell-off in all sectors, including the fixed income markets. We saw yields on intermediate and longer-term Treasuries rise sharply, reaching levels not seen in two years. This activity was triggered by Mr. Bernanke maintaining the position that the economy's direction will allow the FED to begin the process of winding down the QE program. In a recent Bloomberg survey, 44% of the economists surveyed believe the FED will cut its bond buying from $85 billion to $65 Billion. In June, only 27% of the economist surveyed maintained this position. The result created extreme volatility. We saw the yield on the ten year Treasury spike to a 2.435% (See graph attached), which, by the way, was a very fast move. This volatility was a "fear of everything" market.

a. Stocks plummeted hard across the board
b. Treasury yields went higher
c. Commodities were lower

During the quarter, the labor market held steady with the unemployment rate holding at 7.6%. While the rate remains steady, the pace of hiring remains weak, reflecting uncertainty among business managers.

The housing market, on the other hand, presented a mixed message. It continued to rebound with activity levels reaching a five year high.

We continue to underweight total duration relative to benchmarks, a defensive position to protect against rising interest rates. Although, we still are positive on the corporate sector, insurance regulations limit us in that sector. We will reduce duration by replacing bonds in that sector when appropriate. The mortgage products we select are those with limited extension risk. We will add to our dividend paying equities positions as the market allows.