MANAGED ASSET PORTFOLIOS

MAP VIEWS
First Quarter 2014

Most stock markets posted impressive performances last year. U.S. stocks were among the world's best performers as investors managed to shrug off political bickering in Washington, threats of a Fed tapering, and a still sputtering economy. The Dow's annual gain was its fifth in a row, the longest winning stretch since a nine year rally that ended in 1999. The 30% gain for the S&P 500 was its best year since 1997. Smaller stocks did even better, with the Russell 2000 gaining 37% last year, the biggest one year return since 2003. Clearly, 2013 was a year in which investors embraced risk. It is hard to believe, just five years ago, investors were petrified of stocks.

Index	12/31/2013 Total Return	With Dividends Reinvested
Dow Jones Industrials	26.4994%	29.6525%
S&P 500	29.6012%	32.3763%
Russell 2000	37.0033%	38.8250%
Euro STOXX 50	17.947%	22.7324%
MSCI ACWI	20.2502%	23.5254%

Across the Atlantic, many European markets posted respectable gains, as risks of sovereign defaults waned, banks stabilized, and its polarizing recession showed some slight signs of abating. Emerging markets faced strong headwinds last year, as China's slowing economy weighed heavily on many of the counties that mine natural resources that are sold to China. Currencies such as the Brazilian real, South African rand, Russian rubble, and Indonesian rupiah, among others, also saw pressure last year, contributing to the underperformance of these markets. Anticipation of the Fed's tapering of QE3 also contributed to weakness in these markets as did numerous geo-political issues impacting many countries such as South Africa, Thailand, Argentina, Turkey, et al.

Interest rates rode a roller coaster last year. Aided by QE3, bond prices rallied and interest rates declined during the first quarter. During the second quarter, rates rose sharply, following Fed Chairman Ben Bernanke's comments that the Fed may begin to taper their $85 billion per month Quantitative Easing program. During a six week period, mid-year, yields on the 10-year Treasury rose from 1.6% to 3%. Rates eased a bit subsequently, as the economy continues to be far from robust and the Fed indicated its tapering program would be methodical and adjusted to reflect the economic environment. Commodities were underperformers last year led by a 28% decline in gold and 36% decline in silver. Gold's decline last year ended a 12 year winning streak. While we were surprised by the magnitude of gold's drop, we continue to believe that some exposure to the precious metal is warranted in most portfolios.
The growing popularity of Bitcoin highlights the fact that the world is hungry for "alternative

currencies." The ease at which counties can print money to push through economic agendas, should work in the favor of gold over the longer-term.

Looking forward, we believe 2014 can be a good year for stocks; however, not as good 2013. Fed tapering creates an unknown and will likely lead to a heightened degree of volatility during the course of the year. Despite the sharp advance in U.S. equities last year, we do not view valuations as excessively high. Granted, they are not as attractive as a few years ago, but from a historical perspective, valuation metrics are only slightly above historic norms. Granted, there are some highly publicized stocks such as Twitter, Facebook, Netflix, and Tesla, to name a few, that have garnered valuations reminiscent of the tech bubble of 1999. We remain committed to our value strategies. While investing fads come and go, history has proven that value investing is a prudent and sound way to build wealth over time. We continue to believe that the economy faces several structural headwinds, namely an excessive amount of debt in the system and a shift in the jobs market from a manufacturing driven economy to a service driven one. As a result, we believe the Fed's tapering will be slow, which we believe will be a positive for the markets. Should the Fed's tapering progress at a quicker than expected pace, we believe a correction could result. Keep in mind that the ending of QE1 and QE2 both resulted in a 10%+ decline for the S&P 500. From an economic perspective, we believe US GDP will be around 2.5%. This number may not be enough to make a meaningful dent in the challenged labor market, but will be enough for Corporate America to post favorable revenue and earnings comparisons.

As our clients, may recall, we reduced our Emerging Markets exposure during the end of 2012 and throughout 2013, and redeployed those funds into Europe. We continue to find a fair amount of investment opportunities in Europe. Valuations remain well below those of the US and the economic outlook is beginning to show some early signs of improvement. While we believe Emerging Markets may continue to exhibit some further weakness over the near-term, it is an area that remains on our radar screen. We like the demographics of many of these countries, and believe a further pullback in prices could present an attractive entry point. In the interim, we continue to favor the U.S. and Western European markets. Given our less than robust economic outlook, we continue to overweight the consumer staples and other sectors not really dependent upon strong economic growth to deliver on revenue and earnings expectations.

Lastly, for more information regarding our current views on the economy and the financial markets, please visit our website at www.managedassetportfolios.com and view our first quarter webinar.

Kindest regards,

Michael S. Dzialo
President and Chief Investment Officer