KEIM ASSET MANAGEMENT, LLC
Preserving Your Lifestyle

July 8, 2013

Good News

The second quarter has been very difficult as the value of most assets has been pounded. I stated in my last letter that there would be a reaction in the market as soon as there was a hint that the money printing would come to an end. In his news conference on June 19, Fed Chairman Bernanke laid out a possible scenario where they would begin to taper QE around September of this year and bring it to an end in the middle of 2014. The economy would need to continue to grow at a steady pace with a continued drop in unemployment. He stressed this is only a possible scenario, and it is totally dependent on the economic data that continues to come in. However, this was an unexpected announcement, and it sent the markets into a tailspin.

The bond market had already moved ahead of the Fed in the month of May as interest rates rose by a substantial amount. They shot up further after the Bernanke news conference and are now over 50% higher than two months ago. Although this is causing us some short-term pain, I consider it good news for the long term. The economy has been slowly increasing in strength and may finally be approaching a point where this additional and unprecedented stimulus may no longer be needed. The markets are turbulent right now as investors seek to determine the value of assets with less support from the Fed. This price discovery is an important part of what markets do, and there has been much debate on how much these Fed programs have altered the true value of stocks and even more so, bonds. No one knows the answer to that, but in the weeks ahead, I would expect things to settle down as investors become more comfortable with asset values.

Housing has been a bright spot and is responsible for much of the improvement in the outlook. Housing starts have been running at a potential annual rate of over 900,000 units. Single family homes have been running around 600,000 and apartment construction over 300,000. The range a year ago was 700,000 – 750,000 units. Activity has increased over 20% in the last year, a very solid improvement. New home sales and existing home sales are at five-year highs. According to the Case-Shiller housing data, prices for US homes have been rising for several months now. This has several related positive effects on the economy. Economists state that tight credit standards are currently the greatest challenge in the housing market.

There are other signs of improvement in the economy, as well. In May, the Fed released its quarterly survey of senior loan officers. They stated that a "relatively large" number of US banks have

Lyndon Office Park|7000 East Genesee St. Bldg D| Fayetteville, NY 13066-1139
315-701-5750|Fax 315-701-5751|dkeim@keimassetmanagement.com
www.keimassetmanagement.com

eased their standards for business loans, and there has been a notable increase in demand for these loans. This indicates that business leaders are finding some growth opportunities.

Retail sales have been solid and are up over 4% in the last year. Auto sales are a big part of that, and they are still strong. This is likely a reflection of stronger consumer sentiment, which is at a six-year high, according to the University of Michigan survey.

To be successful investing, we have to stick with our long-term plans and a level of risk we can handle. It's not possible to avoid all the short term fluctuations in price as markets adjust to changing outlooks. Sound money is the most important thing in the end. Money is a store of value, and we need for our dollars to have buying power. Thus, we should welcome the possible beginning of the long awaited Fed "exit strategy".

Please feel free to contact me anytime if you have questions or comments.

Best Regards,

David E. Keim

Lyndon Office Park|7000 East Genesee St. Bldg D| Fayetteville, NY 13066-1139
315-701-5750|Fax 315-701-5751|dkeim@keimassetmanagement.com
www.keimassetmanagement.com