Resources Review

AMR CONFERENCE CALL

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Please join our advisors for a candid review of markets & their outlook for what lies ahead. Send questions in advance to: *Info@AMRfinancial.com*.

Call Leaders:

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Quarter in Review

The Markets

Ironically, good news for the economy translated into bad news for investors after the Fed provided its blueprint for winding down the quantitative easing efforts that have benefitted financial markets in recent years. Until mid-May, equities seemed unstoppable as the Dow and S&P 500 powered to new all-time records. However, as the Fed's outlook for continued moderate economic recovery grew more optimistic, both equities and bonds struggled in June. Still, domestic equities across the board managed a positive quarter, though gains were moderate compared to Q1's sizzling pace.

The prospect of less Fed support also affected other markets. Investors began to anticipate a future with higher interest rates and sold off bonds across the board. The 10-year Treasury yield rose to its highest point since August 2011, and since bond prices tend to fall when interest rates rise, bond values were hit hard. Global equities were affected not only by the Fed but also by central bank decisions in China and Japan.

Despite some volatility, the dollar ended the quarter roughly where it began against a basket of six foreign currencies. How-

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Perspective & Strategies

Performance:
Did my account go up as much as the stock market?

In a year where we hear so much about rising markets, one can't help wonder if their own account has risen in tandem with the stock markets. Conservative investors might be surprised to find that in most cases, their accounts have not likely done quite as well. In fact, in some respects, the more the cautious the investor, the more challenged their account's performance has been after this 2nd quarter of 2013.

The more cautious investor would have less exposure to stocks, and thus more modest returns. As noted on the chart below, some investment categories have seen declines at the halfway mark of this year. As noted on the chart below, just some of the investment categories investors include in an effort to diversify their risks, have actually hurt their returns thus far in the year.

Asset Classes	Ticker	Return*
Bonds (via iShares Core Total US Bond Market ETF)	AGG	-2.54%
Gold (via SPDR Gold Shares ETF)	GLD	-26.48%
Emerging Markets (via Vanguard FTSE Emerging Markets Index)	VWO	-11.55%
Global Markets (via Vanguard FTSE All-World ex-US ETF)	VEU	-1.69%

*source: Morningstar, Inc. 1/1/2013-6/30/2013

The very things we do in an effort to diversify risk and help to steady returns, thus far this year may have actually hindered returns. Although we are reviewing all of our positions for considerations for what to change and what to keep, diversification remains an important manner of managing risk.

Bond Designs:

Naturally it is frustrating to see what has traditionally been a cautious part of the portfolio become a drag on performance in recent

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months. Bonds generally have seen declines in recent weeks. This is largely due to speculation about the Federal Reserve's bond buying stimulus policies. The Fed has indicated they will be winding down bond purchases likely within a year's time. That speculation caused bond investors to a rush for the exits and sell. Whenever there are more sellers than buyers, prices fall. That's what has happened in recent weeks. Falling prices equates to rising yields or rates. That may sound good for income starved conservative investors, but in fact, this hurts the price of existing bonds.

Certain kinds of bonds have been hurt more than others. Longer-term bonds, such as Treasury Bonds have been particularly affected. Several of our accounts have held Inflation Protected Treasuries inside of either mutual funds or ETF's. These also have been hurt, as many of these funds are longer-term in nature. With inflation rather benign, these investments which historically perform well in a rising interest rate environment have seen marked declines. Intermediate-term corporate bonds, municipal bonds, and international bonds have all been challenged by these recent pressures.

To deal with these pressures we are contemplating what might be called a barbell approach. On one end of the barbell the goal is stability and keeping up with inflation. To do so we would look at good quality lower risk bonds and low duration bonds, as well as, elevated cash reserves. The other end of the barbell, involves exchanging risks. (WHAT IS THE GOAL) In place of interest rate risk, we will substitute other types of risks in the bond arena. This would include bond styles which are partly affected by stocks, including High Yield Bonds and Convertible Bonds. Floating Rate or "bank-loan" funds are also a style of bonds we might want to increase. These too have risks, but because of their floating or adjusted rates, interest rate risk is not a concern, though there are certainly other risks at play.

The Role of Cash:

It would not be surprising to increase cash weightings in client accounts if we find bonds continue to move in the challenging manner they have this quarter. Although it can seem frustrating to hold cash, as it appears unproductive at times. It is stable and affords the possibilities to be opportunistic with purchases.

Options:

Some clients may want to consider the use of Options as a tool. Though traditionally used to add leverage or for speculation there are other ways options can be used. They can generate income to a portfolio, or to obtain market exposure with limited risk. They may even be helpful at mitigating interest-rate risks. Consider discussing how these tools could be of help to you.

The Big Picture:

Over the past several years we have seen both the hasty decline of stock prices during the credit crisis of 2008-2009 and the relatively steady recovery in the years since. In spite of a slower than desired economic growth, the U.S. economy has continued to gradually, albeit slowly, recover. There certainly remain challenges ahead. The growth rate is slow, jobs creation is not much more than enough to meet population growth. Troubles around the world persist. There remains political unrest in the Middle East (Egypt, Turkey, and Syria, to name a few). Other Emerging

Our Newest Advisor

We are proud to announce that Kristen Boyd is now an Investment Advisor Representative. Kristen passed the FINRA administered Uniform Investment Adviser Law Exam (series 65).

Kristen Boyd, practices in our Hyannis, MA branch. She is an investment and portfolio management specialists. As the assistant to the Chief Investment Officer her duties include handling client services, financial analysis and work on the Cape Cods financial talk show, "Something More with Chris Boyd." Her new license adds another level of expertise and enhances service for the clients of AMR.

Kristen has run several of her own businesses and quite a few classrooms, too. She was previously in elementary education. She earned her BA from The College of Holy Cross and M.A.T., from Sacred Heart University. She is an active volunteer in the Mashpee school system, including the Mashpee Middle School PTO President and the Mashpee High School Booster's Club V.P. This year she was honored with "Volunteer of the Year" for her work at the Mashpee Middle School.

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Market/ Index	2012 Close	As of 6/28	Monthly Change	Quarterly Change	YTD Change
DJIA	13104.14	14909.83	-1.36%	2.27%	13.78%
NASDAQ	3019.51	3403.25	-1.52%	4.15%	12.71%
S&P 500	1426.19	1606.25	-1.50%	2.36%	12.63%
Russell 2000	849.35	977.48	-.68%	2.73%	15.09%
Global Dow	1995.96	2110.60	-3.43%	.10%	5.74%
Fed. Funds	.25%	.25%	0 bps	0 bps	0 bps
10-year Treasuries	1.78%	2.52%	36 bps	65 bps	74 bps

ever, gold's slide accelerated after the Fed's announcement; the precious metal briefly fell below $1,200 an ounce before ending with a $400 loss for the quarter. A stronger dollar helped keep oil prices in check despite concerns about Middle East supplies.

Quarterly Economic Perspective

- The U.S. economy grew more slowly during the first quarter than previously thought, but the 1.8% increase in Q1 gross domestic product was still substantially better than the previous quarter's 0.4%. Assuming that moderate growth continues, the Fed said that by the end of the year it may start reducing the $85 billion worth of bonds it has been buying monthly and end those purchases completely in 2014. However, it doesn't plan to raise interest rates until the unemployment rate is around 6.5%, which the Fed says could happen by the end of 2014.

- The Fed wasn't the only central bank to affect global equities. China's central bank, which had been attempting to control lending, was forced to inject additional cash into the banking system to bring down record money market interest rates after concerns about liquidity helped cause a sharp drop in Chinese stocks. Meanwhile, a massive bond-buying program announced in April by the Bank of Japan helped buoy stocks there, though there also was some volatility after the central bank later refused to expand the program.

- In a landmark ruling that struck down the Defense of Marriage Act, the U.S. Supreme Court paved the way for same-sex couples to claim the same federal tax and other benefits as other married couples in states that recognize same-sex marriages. Some of those benefits include survivor's/spousal Social Security and military benefits, the ability to inherit a spouse's estate tax-free, family medical leave rights, spousal visas and IRA contributions, joint federal income tax filings, and private pension benefit options.

- The unemployment rate saw little change; the 7.7% rate announced in March by the Bureau of Labor Statistics nudged downward to 7.6% by quarter's end. The economy added 175,000 jobs in May, slightly more than the monthly average for the quarter. Over the past three months, the private sector created 489,000 new jobs while federal, state, and local governments eliminated 23,000 jobs (14,000 federal government jobs were cut in May alone).*

- The housing market's recovery accelerated in the second quarter despite higher mortgage rates. The Commerce Department said May's 2.1% increase in new home sales represented the fastest annualized pace since the summer of 2008. As of April, home prices in the areas measured by the S&P 500/Case-Shiller 20-city index had their largest year-over-year gains--12.1%--in the last seven years. Home resales were almost 13% higher in May than a year earlier, according to the National Association of Realtors®, and housing starts were up 28.6% from last May.

- U.S. manufacturing data was mixed. A 3.6% increase in durable goods orders in May followed an equally strong April, and the Commerce Department said business orders for new capital equipment rose 9.3%. However, the Fed's gauge of industrial production was little changed, and the Institute for Supply Management's manufacturing index for May showed contraction for the first time since November.

- Inflation remained well-contained, according to the Bureau of Labor Statistics. Annual consumer inflation was a moderate 1.4% as of May, while the wholesale inflation rate remained controlled at 1.8%. By May, retail sales were 4.3% ahead of May 2012 and consumer spending during the month largely reversed April's decline, while the Bureau of Economic Analysis said inflation-adjusted incomes were up roughly 1% from a year earlier.

- The European Union continued to be mired in recession. Eurozone unemployment hit a record 12.2% and the economy shrank 0.2% during the first quarter, according to the EU's statistical agency; that represents an annual contraction of 1.1%. Meanwhile, China's growth rate continued to show signs of slowing from Q1's 7.7%.

economies, such as Brazil, have seen civil unrest and economic disruption. Europe remains in recession with its financial strains and fiscal recovery improving slowly, but by no means fully resolved. China seems to continue to grow, but at a slower rate than previously expected as it moves away from an export economy creating more consumption at home. Whether there will be other challenges arising from economic developments, concerns of terror or from tensions with other nations like Iran or North Korea, there are numerous potential causes for temporary disruptions in the market.

Although one does not know what is around the corner in the near-term future, it seems reasonable to expect that in general companies will be more profitable in the future and stock prices will rise. The First Trust economist, Brian Wesbury, refers to this economy as not a "race-horse" economy, but rather a "plow-horse" economy. The analogy is apt. Although we are not off to the races, we do find slow and steady progress being made. That causes us to think in that investing in U.S. companies for the long-term is a good investment opportunity. Given the dramatic rise in stocks since late last year, it would not be surprising to see further declines in stocks.

Longer-term, it does seem likely that we will move from a Structural Bear market that we have been in since 2000, to a Structural Bull market over the next decade or so. When that happens, markets will be driven higher by economic expansion. That same economic recovery will likely be cause for interest rates to rise, making bonds potentially less appealing.

Over the past 30 years, bond investors have benefited from a prolonged bull market where interest rates steadily decline which has benefited their pricing. We may be in or near a change in that paradigm, where interest rates no long steadily decline but instead rise over the coming years. Such a steady rise in interest rates could make bonds generally a more difficult investment unless bought individually and held to maturity, which also has its risks. As you know we are always weighing the variables of the market and preparing investment designs for the realities of the market.

Eye on the Month Ahead

Key dates and data releases: U.S. manufacturing (7/1); factory orders, auto sales (7/2); balance of trade, U.S. services sector (7/3); unemployment/payrolls (7/5); Federal Reserve Open Market Committee minutes (7/10); wholesale inflation (7/12); retail sales, business inventories, Empire State manufacturing survey (7/15); consumer inflation, industrial production, international capital flows (7/16); housing starts, Fed "beige book" report (7/17); Philadelphia Fed manufacturing survey (7/18); options expiration (7/19); home resales (7/22); new home sales (7/24); durable goods orders (7/25); home prices (7/30); Federal Open Market Committee announcement, initial estimate of Q2 eco-