IdahoTrust

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WealthManagement

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Market Insights

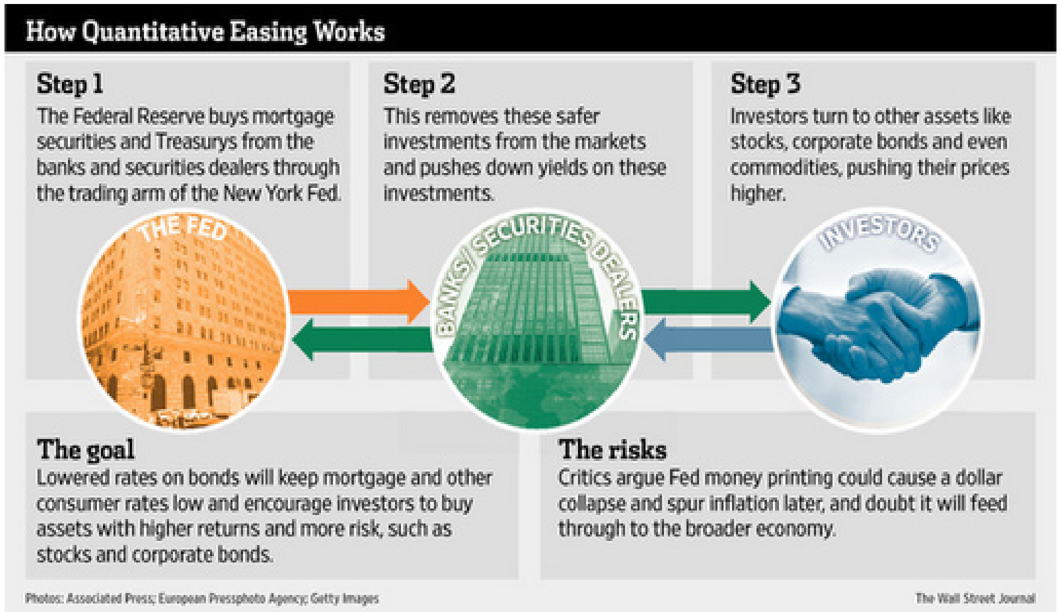
A periodic newsletter from Idaho Trust

Stock investors enjoyed large gains in 2012 which may come as a surprise given the headlines last year. Christmas came a little bit early for the markets when the Federal Reserve announced another round of quantitative easing this last December. The labor market has shown some signs of accelerated progress.

More Quantitative Easing

On the 12th of December, Fed Chairman Benjamin Bernanke, in association with the Federal Reserve's Open Market Committee, announced another round of quantitative easing termed QE4 (see following graphic). QE4 is setup similarly to the previously announced QE3 in that the Federal Reserve (Fed) will make a specified amount of securities purchases each month with newly created money. Both programs are set to spend a combined $85 Billion in both treasury and agency MBS purchases each month, that is more than a trillion dollars a year of new money that the Fed is pumping into the economy. Although it is not certain when the latest two quantitative easing programs will end, the Fed did clarify their guidance. Previously, the Fed has stated *"…the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens."* The Fed has now clarified that language *"…the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after asset purchase program ends and the economic recovery strengthens."*

Not only did the Fed clarify their language, they also disclosed metrics that they will be watching for additional signs of a strengthening recovery. The Fed will continue their operations as long as inflation projections, 12 to 24 months out, are below 2.5% annually and the unemployment rate is still above 6.5%. Although they mentioned these metrics directly, there are other metrics that the Fed will monitor such as the participation rate in the labor force, an important component of the unemployment calculation. Hopefully, these additional measures taken by the Fed to increase the transparency of their monetary policy will go a long way to ease the market's concerns of changing monetary policies.



In the Fed's latest economic projections they lowered their expected GDP forecast for 2012. The fourth quarter of 2012's GDP reading will be released on January 30th. The Fed's revised projection of 2012's GDP infers that the Fed may be expecting a poor GDP figure for the latest quarter.

The Labor Market

The unemployment rate has been slowly declining since its peak on 10/31/2009 when it reached 10%, but recently the rate of the decline in the unemployment rate has accelerated. In July of 2012, the unemployment rate was 8.3% and now according to its latest reading it is 7.7%. However, some of the decline in the unemployment rate may be due to discouraged job-seekers no longer actively looking for work. The participation ratio, a measure of the unemployed actively looking for work, has declined dramatically since 2008 as discouraged job-seekers drop out of the active labor force. The Fed is currently projecting that the unemployment rate will be between 7.4% and 7.7% in 2013.

The number of applicants applying for first time unemployment benefits has been declining. In fact, the four week moving average of initial jobless claims, a less volatile figure than weekly jobless claims, has declined to early 2008 levels. This may indicate that more people are successfully finding employment.

Idaho Trust Bank offers total wealth solutions including its LifeNeeds™ investing process. The LifeNeeds™ investment process utilizes proven strategies and techniques delivered by a highly trained staff of wealth management professionals.

LifeNeeds™ wealth management accounts feature optimized asset allocations, robust security screening and Idaho Trust's unique TacticLogic™ investment process. All of which are tailored to our clients' unique financial needs.

2012 Index Returns

Broad Market Returns

S&P 500	15.99%
Dow Jones Industrial Average	10.23%
MSCI EAFE	17.88%
Bond Market	4.22%
Treasuries	1.99%
Corporate Bonds	9.39%
Municipal Bonds	6.78%
Real Estate (REITs)	17.12%
Commodities	-1.06%
Foreign Bonds	4.32%

Domestic Stock Sectors

Information Technology	14.82%
Financials	28.82%
Health Care	17.89%
Energy	4.61%
Consumer Discretionary	23.92%
Consumer Staples	10.76%
Industrials	15.35%
Utilities	1.29%
Materials	14.97%
Telecommunication Services	18.31%

U.S. Companies

The uncertainty brought by the Fiscal Cliff has caused domestic companies to cut their forecasts for capital spending. With the political and economic environment in question, business leaders are having a hard time making investment decisions which could affect corporate earnings down the road. The companies represented by the S&P 500 index are projecting a fall in capital expenditure this year of 1.3%, after three years of consecutive increases in capital expenditures. Still despite the uncertainty, markets remain optimistic about 2013. The S&P 500 is trading roughly at 14.8 times earnings which is below its 60-year average, which means stocks continue to look attractive in a historical context. The derivative options market is showing a bullish outlook for stocks in 2013. A continued rally in stock markets would reward investors who have already benefitted from the recovery from the Great Recession. During the great recession the S&P 500 bottomed out on 3/9/2009 and since that time the S&P 500 has surged returning 129% or 24% per annum.

Even though the Great Recession is two years behind us now, in a lot of ways it still feels like a recession. The housing and labor markets, although improved, are still not near the level they once were. With the Fed insuring that mortgage rates remain low, the labor market making steady gains and political uncertainty clearing up, 2013 could be a good year for stock investors.

S&P 500 Index

3 Month	-0.38%
Year-to-Date	15.99%
1 Year	15.99%
3 Year	10.86%
5 Year	1.66%

S&P 400 Index

3 Month	3.60%
Year-to-Date	17.86%
1 Year	17.86%
3 Year	13.60%
5 Year	5.13%

S&P 600 Index

3 Month	2.21%
Year-to-Date	16.32%
1 Year	16.32%
3 Year	14.05%
5 Year	5.12%

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Contact Us

Boise
888 W. Broad St.
Boise, Idaho
208.373.6500

Coeur d'Alene
622 E. Sherman Ave.
Coeur d'Alene, Idaho
208.664.6448

Info@IdahoTrust.com
www.IdahoTrust.com

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