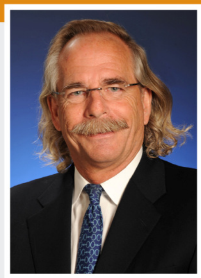
THE OMNIVEST MARKET VIEW



Tom Sowanick
Co-President
Chief Investment Officer
tom@omnivestgrp.com
Tel: +1 609 921 7939

Eleni Athanatos
eleni@omnivestgrp.com
Tel: +1 609 986 1001

Tapering Less Likely in September

August 6, 2013

The risk of the Fed beginning to taper their asset purchases in September seems to be losing momentum, at least when looking at the monthly employment data. Last Friday's non-farm payroll data of 162,000 is considerably lower than the 200,000 that the Fed would like to see on a consistent basis. Moreover, the trend of the monthly payroll data is declining.

The average monthly payroll gains in Q4 2012 was 232,000, Q1 2013 was 212,000, Q2 2013 was 190,000 and the July report was only 162,000. This trend should be disturbing for Fed Chairman Ben Bernanke given that employment data is one of his guideposts for tapering.

Regardless, the mood of bond investors seems to have shifted from buying on the dips to selling on strength. This shift has been caused by expectations that the Fed will taper sometime before the end of the year. None of us really know how far interest rates will rise once the tapering begins in earnest. Further complicating matters for bond investors is the risk that investors shift out of fixed income funds and ETF bond funds in favor of equity products. This would not be an irrational shift given that 10-year Treasuries have fallen 6% since the start of the year and the S&P 500 Index has gained 20.5%.

And while it may be difficult to enter the equity market when it is sitting at an all time high, we all have to remember that interest rates have only started their ascent higher. Investors need to look at the equity market as a source of not only higher expected returns but also as an asset class that will have less volatility than the bond market. The alternative, of course, is always cash with a 0% expected return.

Volatility in the bond market should remain higher than for equities as long as uncertainty about the Federal Reserve's activity remains high. Once the Fed starts the tapering process, the next obvious question will be "when will the Fed begin to shift interest rates?" This question may become even more pronounced depending on who is chosen to succeed Fed Chairman Ben Bernanke in January 2014.

In the meantime, investors that have lost money in various fixed income assets need to be vigilant to the risk that interest rates will most likely move higher from current levels and perhaps even substantially higher over the months ahead. Shortening duration exposure and moving down in credit should help stabilize recent fixed income performance. Another risk which we all observed in the May/June period was the complete loss of liquidity for a variety of asset classes. Investors should take advantage of the current calm environment to reduce exposure to those asset classes that are not highly liquid.

OMNIVEST GROUP LLC