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Signature Estate & Investment Advisors LLC
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"Quantitative easing: How do I adjust my portfolio to benefit from the Fed's upcoming exit?"

By Gary K. Liska

For several years, the Fed has been stimulating the economy with an aggressive, unconventional monetary policy. Quantitative easing (QE), while controversial, has been effective in stabilizing the economy and job market in the aftermath of 2008's Great Recession. Case in point: The auto and housing sectors have stabilized, and as the chart to the right shows, the Fed program has been profitable for bond and stock investors alike.

However, questions remain. The U.S. GDP has stalled at an anemic sub-2 percent growth rate and unemployment still hovers above 7 percent; the economy has recovered only 6.4 of the 8.8 million jobs lost.

Historically, when the economy is standing on its own feet (without Fed support), three-month T-bills (now 0.15 percent) reflect inflation, which is currently around 1.75 percent, and 10-year Treasury bonds (now 2.50 percent) reflect real GDP + inflation, which today is 3.5 percent but is forecast to grow to over 5 percent in 2014.

If economic growth continues or picks up the pace, investors should expect a long journey northward in interest rates.

In May and June the Fed announced it would consider "tapering" its asset purchases to reduce some of its easy money policies. While the eventual exit may be 12 months away, investors are already crowding the exits. The bond and stock markets reacted with trepidation: Stocks, bonds, gold and other commodities fell 5 percent to 15 percent in a matter of weeks.

S&P 500 AND FED EASING: 2008-2013

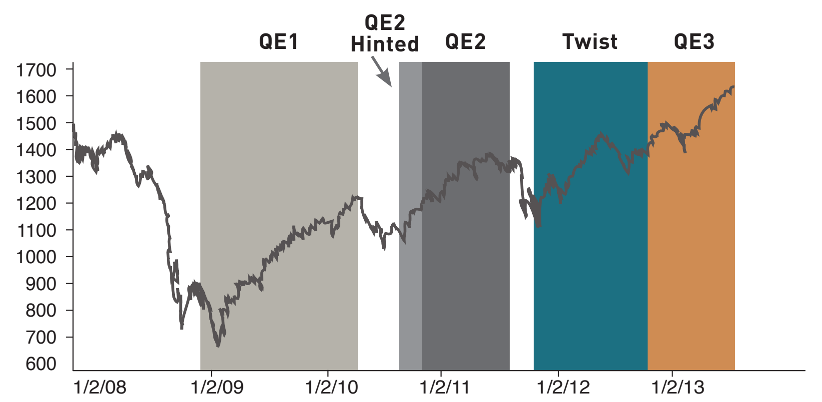


Chart source: "The Bespoke Report," June 21, 2013. Each shaded area in the chart represents a different asset purchase program that the Fed has embarked upon since the financial crisis.

But consider this: Should not investors rejoice that the Fed believes the economy is strong enough to be weaned off the stimulus measures implemented because of the Great Recession? We think so. The resulting uncertainty has increased risk premiums and new dislocations—but also new opportunities. Uncertain investors argue over the timing of the exit, but we see any further weakness as a buying opportunity *in certain types of assets.*

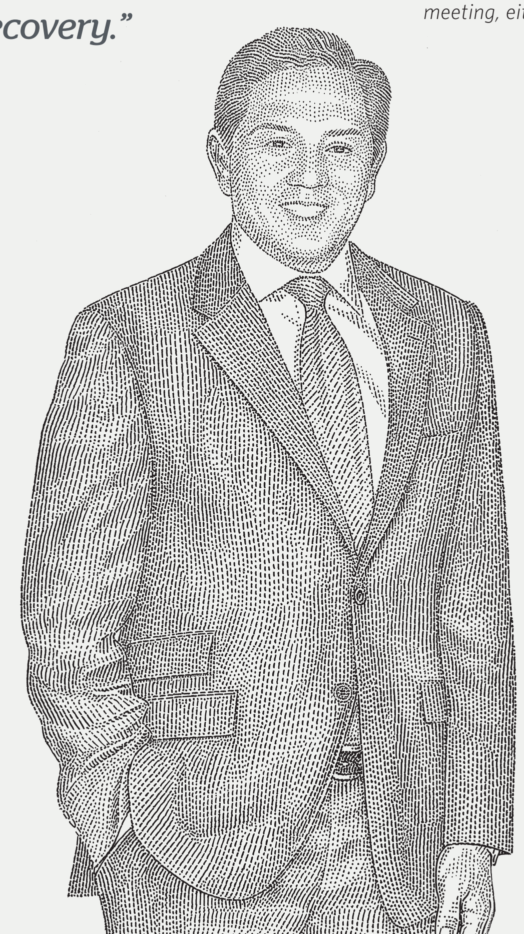
As other countries lag behind in their economic recovery, our advice is to reposition for the next leg in the U.S. recovery, by overweighting U.S. mid- and small-cap stocks while maintaining a focus to large caps with outsized exposure to domestic demand. For fixed income, we do not anticipate runaway inflation but do expect higher interest rates to dominate the investment horizon. Thus, bond investors should rethink their game plan and adjust to this new inflection point. Floating-rate bonds, bank loans, managed futures, equities with strong dividend growth, MLPs and REITS should be considered. Assets hoarded during the crisis should be shunned, and assets that were shunned should be reconsidered.

Tapering may begin by September, with an eventual exit next year. But short-term rates will be anchored near zero, as the Fed funds rate probably will not be raised until 2015. The Fed's "shot across the bow" gives investors time to adjust. So, with the rules of the game now changed, investors should reposition for the next leg of the bull market.

"Our advice is to reposition for the next leg of the U.S. recovery."
—Gary K. Liska

How to reach Gary K. Liska

Please call my office at 310.712.2331 *to schedule a meeting, either over the telephone or face to face.*



MY FAVORITE COACH...

John Wooden

I NEVER LEAVE HOME WITHOUT...

Kissing my wife and son

MY GOALS FOR THIS YEAR INCLUDE...

Improving my culinary skills

About Gary K. Liska

Gary K. Liska has been in the financial services industry since 1994 and is a founding partner of SEIA. Less than 16 years after its inception, SEIA reached the milestone of $3 billion in assets under management. Mr. Liska is a certified financial planner and holds a master of science degree in financial services and is a core member of SEIA's investment committee. He specializes in comprehensive wealth management strategies for individuals, as well as corporations. Mr. Liska has completed the AIF (Accredited Investment Fiduciary) designation.

Assets Under Management
$350 million (Liska)
$3.2 billion (firm, as of 6/30/13)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$500,000 (investment services)
$5 million (Private Client Group)

Largest Client Net Worth
Confidential

Financial Services Experience 20 years

Compensation Method
Asset-based, fixed and hourly fees

Primary Custodians for Investor Assets
Charles Schwab & Co. and Fidelity Investments

Professional Services Provided
Investment advisory and money management services, private client wealth management, corporate retirement planning, estate planning, insurance planning and philanthropic planning

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ILLUSTRATION BY KEVIN SPROULS

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