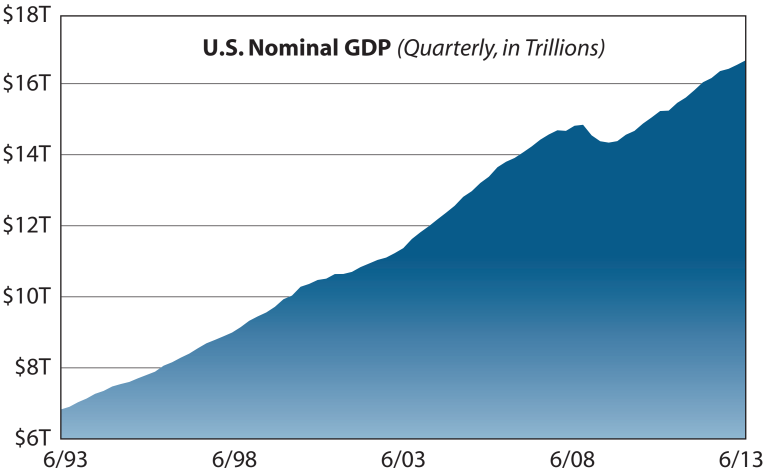
Robert F. Carey, CFA
Chief Market Strategist

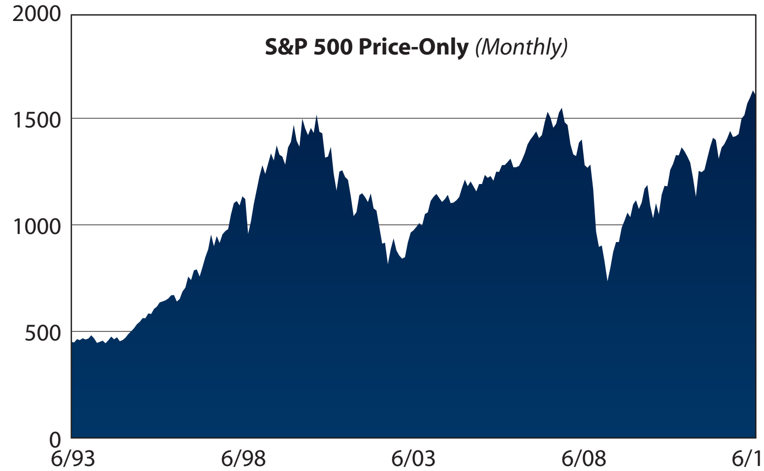
Mr. Carey has over a quarter century of experience as an Equity and Fixed-Income Analyst and is a recipient of the Chartered Financial Analyst (CFA) designation. He is a graduate of the University of Illinois at Champaign-Urbana with a B.S. in Physics. He is also a member of the CFA Society of Chicago and the CFA Institute. As Chief Market Strategist, Bob and his staff supervise approximately $76 billion in assets. Mr. Carey has appeared throughout the United States and Canada as a guest on television and radio programs. These programs include: Bloomberg TV, CNBC and on Chicago's WBBM Newsradio 780's Noon Business Hour. He has been quoted by several publications, including *The Wall Street Journal, The Wall Street Reporter, Bloomberg News Service, and Registered Rep.*

We invite you to visit Bob's Market Commentary Blog at www.ftportfolios.com for more insight.

REO Speedwagon Has It Right: "Roll With The Changes"



Source: Bloomberg.



Source: Bloomberg.

Focus On Growing The Economy

U.S. nominal GDP has increased from around $6.8 trillion at the midpoint of 1993 to $16.6 trillion at the midpoint of 2013 (see chart). The U.S. economy is by far the biggest in the world. The second biggest belongs to China at around $9 trillion, according to the International Monetary Fund (IMF). Looking out five years (2018), the IMF sees the U.S. economy expanding to $21.1 trillion, compared to China's $14.9 trillion. That is impressive, in our opinion, when you consider how disfunctional the U.S. government has been over the last 24 months (think U.S. sovereign debt rating downgrade by S&P in August 2011, fiscal cliff showdown in December 2012 and present day debt ceiling/budget/Obamacare standoff). Things in Washington, D.C. have grown so partisan that even the Chinese government has verbalized its discontent. It has once again questioned the validity of having the U.S. dollar be the world's reserve currency. That is akin to a 9-year-old brother telling his 16-year-old brother to follow his lead.

Brian Wesbury, Chief Economist at First Trust Advisors L.P., has been characterizing the current U.S. economic expansion as a "Plow Horse" recovery for many months. He has been steadfast in saying that the growth in the size of the U.S. government, particularly under the direction of the Obama Administration, is one of the main reasons why the current recovery isn't more robust. Others have chimed in as well. A recent report by Macroeconomic Advisors estimates that fiscal policy uncertainty has cost the U.S. 900,000 jobs since 2009 and shaved 0.3 percentage points from economic growth per year.

Hopefully, now that the shutdown is over for the time being, Congress and the Obama Administration will choose to put their focus back on creating more jobs to help grow the economy faster. And by the way, due to the government shutdown, we still haven't seen September's nonfarm payroll numbers.

Normal Checks And Balances In The Markets Serve Investors Well

Perhaps one of the biggest mistakes an investor can make over time is to overstate the impact that an event can have on the securities markets. In the short-term, events can have a significant impact on the direction of prices, but over time, once addressed, the normal checks and balances simply foster a new opportunity for those paying attention. On a macro level, there almost always seems to be a buyer ready to enter the market if the price is right. Checks and balances extends beyond our system of government.

In the time period captured in the chart above, the S&P 500 managed to withstand the following notable negative events (we focus on the negative since nobody minds the positive ones) that sent shockwaves through the markets: Asian Financial Crisis (July 1997); Long-Term Capital Management Bailout (September 1998); Internet Bubble Bursts (March 2000); Terrorist Attacks (September 2001); Iraq War (March 2003); Subprime Mortgage Meltdown/Financial Crisis/Recession (July 2007-March 2009); Lehman Brothers Bankruptcy (September 2008); and the European Union Sovereign Debt Crisis (Q4 of 2009). Taking all of these events into account, the S&P 500 still posted a cumulative total return of 142.5% (5.7% annualized) from 6/30/97-6/30/13 (Asian Crisis through the wind down of the Eurozone Debt Crisis). While a 5.7% annualized return may seem a bit light compared to the 9.8% average annual return on the S&P 500 from 1926-2012 (Ibbotson Associates/Morningstar), we perceive it as a sign of strength, as well as reassuring, considering the severity of many of those events.

U.S. companies have persevered through it all. Many have even flourished. Moody's puts total cash holdings on the balance sheets of nonfinancial companies at $1.48 trillion, up 81% since 2006, according to *Bloomberg Businessweek*. Investment grade companies issued a record (single month) amount of debt in September ($145.7 billion), according to Dealogic. Not bad!

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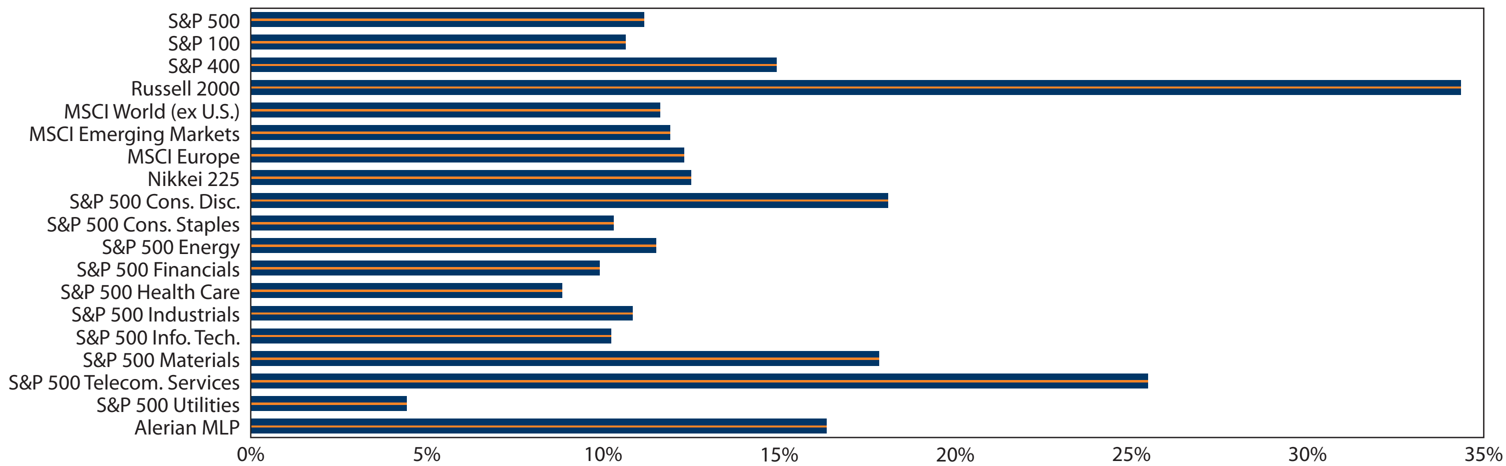
Investing In Equity Products À La Carte Can Be Worth The Weight

Open-end mutual funds are required to select at least one broad-based (can be narrow in some instances) benchmark index to compare its investment returns to over time. When it comes to open-end stock funds, one of the most utilized benchmarks is the S&P 500, regarded as one of the best gauges of large capitalization U.S. equities. There is approximately $5.14 trillion benchmarked to the S&P 500, with index assets comprising roughly $1.6 trillion of that total, according to S&P Dow Jones Indices. S&P 500 funds are often referred to as core equity holdings, because the index captures approximately 80% coverage of total available market capitalization. What is perhaps most telling is that nearly 4 out of 5 (79.46%) U.S. Large-Cap Equity funds failed to outperform the return posted by the S&P 500 for the five-year period ended June 2013, according to the S&P Dow Jones Indices/SPIVA Scorecard. It was 85.95% for the three-year period ended June 2013. While these statistics, which are published twice a year, vary depending on the time period featured, investors should take note of these, in particular, because the bull market in stocks turned 51 months (4.25 years) old in June 2013. That captures the entire three-year comparison and 85% of the five-year. With all of the new equity portfolios available today via open-end funds, closed-end funds, UITs and ETFs, investors have never been in such an potentially opportunistic climate, in our opinion. But investing is serious business. Now that investors have far more tools and information at their disposal, we encourage them to "get more invested in being invested." And because there is so much information available today, we encourage investors to seek out professional guidance, if needed, to help navigate the ever changing landscape.

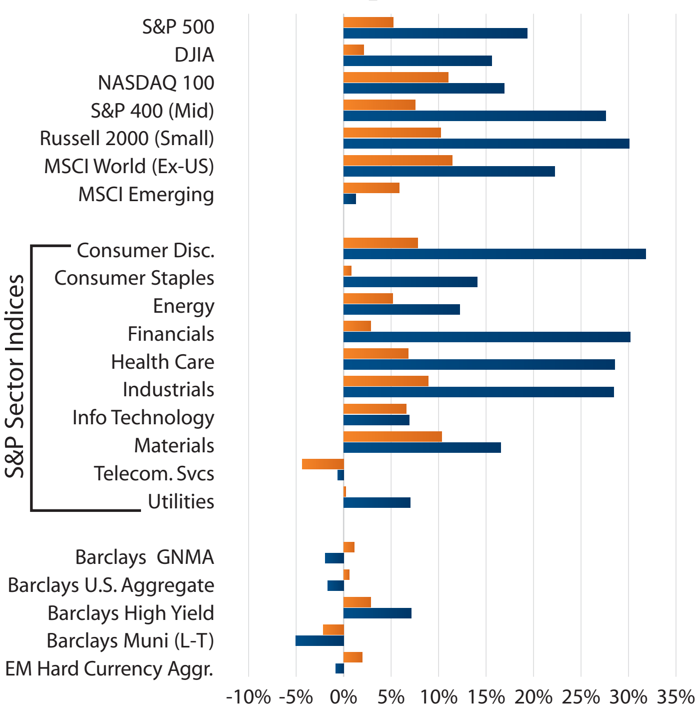
The chart below features Bloomberg's 2014 estimated earnings growth rates for many major stock indices, both domestic and foreign. It paints a fairly optimistic picture, in our opinion. We have included the 10 major sectors that comprise the S&P 500. We did so to make the following point: an investor who owns a fund that replicates the S&P 500 will only garner the amount of exposure to the 10 major sectors the index designates. For example, the 2014 estimated earnings growth rate for the S&P 500 Telecommunication Services Index is 25.47%, the highest of any sector by far, but its constituents only carry a 2.4% weighting in the S&P 500 at the present time. It hasn't always been this low. Its index weighting averaged 9.1% in 1993 and 5.5% in 2001, according to Bespoke Investment Group. We have talked with financial consultants who have elected to diversify most of their clients' equity portfolio using only investment products replicating the 10 major S&P 500 sectors. They, along with their clients, determine the weightings. Something to consider. Opportunities abound!

2014 Estimated EPS Growth Rates For Major Equity Indices (10/15/13)



Source: Bloomberg. There can be no assurance that any projections cited will occur.

Total returns for Q3 and past 12 months (9/30/13)



A Look Ahead:

The outlook for earnings (year-over-year comparison in $)...

	Q4'13E	Q4'12A	**Q1'14E**	Q1'13A	**2013E**	2014E
Financials	**5.13**	3.86	**5.35**	5.21	**20.58**	22.22
Information Technology	**10.82**	9.38	**9.52**	8.20	**34.85**	40.55
Health Care	**8.76**	7.23	**9.24**	8.14	**33.92**	38.56
Consumer Staples	**6.41**	6.33	**5.87**	5.43	**23.62**	26.09
Consumer Discretionary	**6.89**	6.33	**6.30**	5.55	**24.96**	29.02
Industrials	**6.53**	4.87	**6.03**	5.48	**24.37**	27.17
Telecom. Services	**2.05**	-2.90	**2.76**	2.10	**8.85**	10.92
Energy	**11.94**	10.45	**12.19**	11.18	**45.96**	51.00
Utilities	**2.52**	2.65	**3.21**	2.54	**12.02**	12.91
Materials	**3.46**	2.79	**5.08**	4.48	**14.23**	18.34
S&P 500 Index	**28.87**	23.15	**28.63**	25.77	**107.77**	121.73
S&P 400 Index (Mid-Cap)	**17.49**	13.82	**16.28**	13.29	**61.89**	73.82
S&P 600 Index (Small-Cap)	**7.89**	5.25	**8.11**	5.81	**27.22**	35.23

Source: Standard & Poor's (10/9/13)