



TILDEN

Capital
Management

An Investment Advising and Financial Planning Firm

Firm Inception 08/03/10

7/17/13

Quarter in Review

The Markets

The Second quarter of 2013 was not good for the fixed income sectors. Long bonds were down over 9% and medium term bonds were down 3%. Treasury Inflation Protected Securities (TIPS) were also down close to 8% as the index has a duration close to 8. Commodities as well saw a large sell off with DB Liquid Commodity index down over 7%. Equities were the only sector that wasn't down. With large cap equity up around 3% followed by small and mid cap around 2.5% and 1.5% respectively.

For years now the Federal Reserve has been trying to communicate better and to be more transparent, with a goal to reduce volatility in the market regarding its statements made and minutes released. To this end they have been providing specific quantifiable inflation and employment targets. However volatility has not declined, especially when the chairman speaks at great lengths in describing the FOMCs processes that have never before been discussed. This past quarter saw the market sell fixed income instruments dramatically, not because investors thought Fed Funds rate increases were on the horizon but the fear the Fed would take away the proverbial punch bowl of bond buying. The 85 Billion a month purchase program was initiated last fall to hold long term interest rates down to give the housing market more time to recover, time enough for home owners to potentially refinance their mortgages. The housing market did show year over year price increases and first quarter GDP was estimated at 2.4%. This helped spawn the June FOMC statement that downside risks had diminished. In his press conference on June 19th the chairman said that FOMC would like to conclude the asset purchase program when unemployment reached 7%. At a 7.6% unemployment rate many investment houses estimated a "tapering," of buying could begin as soon as September. Which caused the long bond to lose another 4.74% for the last 11 days of June, and saw the 10-year yield rise by 30bps by month end. It now stands at 2.6% off from its high of 2.73% or up around 100 bps from the beginning of the year. Since the Chairman's press conference Q1 GDP was revised down to 1.8% (from 2.4%) and Q2 GDP estimates are around 0.5%. The stock market has since risen another 4.75% and bonds are flat at the time of this write up. What does this mean, that even though the economy is starting to show signs of weakness it anticipates the Fed will continue to purchase bonds, printing more cash, and driving up the prices of assets.

The US Economy in Q2 continued its expansion. Another 589k jobs were created, housing continued to recover but interest rates started to climb. The Federal Reserve announced that it would begin to curb its bond-buying

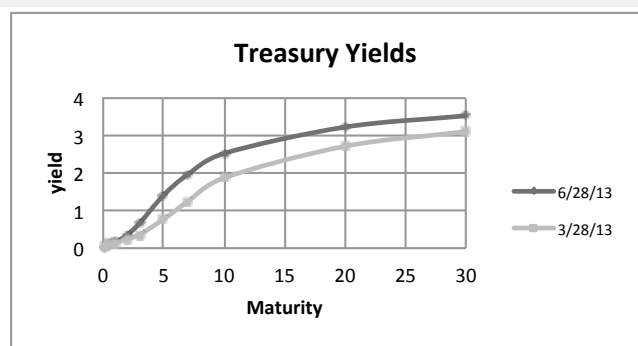


program sometime this year dependent on good economic data. Industrial production and manufacturing reversed its Q1 positive course, and GDP estimates have been sub 1%. The consumer's balance sheet is better and their confidence looks better as well but the economy is not taking over where the Fed is trying to leave off. The second half of the year needs to be a lot stronger or we will be in for a bumpy ride.

Interest Rates

The June FOMC minutes show that the committee expects the second half of 2013 to be a much stronger growth period than the first. However the tone wasn't as hawkish as previous which led investors to believe that Fed may not begin tapering or at least ending the program as expected. Even so the damage has already been done, interest rates have increased from the 1-year all the way out the curve. My feeling that the Fed would continue to purchase bonds through the latter half of this year was correct, but the market, like normal, over reacted and sold bonds heavily. The portfolios I managed that had exposure to long bonds were affected negatively over the quarter, but before Bernanke's comments on the 19th I moved out of all long bond exposure across the portfolios. I didn't know when tapering would begin but didn't need the portfolios to feel any more pain.

Years	6/28/13	3/28/13	Difference
0.08	0.02	0.04	-0.02
0.24	0.04	0.07	-0.03
0.5	0.1	0.11	-0.01
1	0.15	0.14	0.01
2	0.36	0.25	0.11
3	0.66	0.36	0.3
5	1.41	0.77	0.64
7	1.96	1.24	0.72
10	2.52	1.87	0.65
20	3.22	2.71	0.51
30	3.52	3.1	0.42



Leading Economic Indicators

The Conference Board leading economic index showed a steady increase for the first two months of Q2. It mainly benefited (again) from the increase in stock prices (S&P 500), the Leading Credit Index, and the interest rate spread between fed funds and the 10-year. However under half of the 10 indicators were up, with initial claims and ISM new orders negative. This month new orders are back in the expansion area, and claims will add to the LEI, so expect the indicators to be positive again for the month of June.



TILDEN

Capital
Management

An Investment Advising and Financial Planning Firm

Firm Inception 08/03/10

Jobs

At the time of this write-up **nonfarm payroll** posted an increase of **195k for June 2013**, and **589k jobs gained** in the **first quarter of 2013**. The total gain for the last twelve months was **2.1mm, the same as the 1st quarter of 2013**. The unemployment rate is back to 7.6% as of June, up 0.1% from April. Median unemployment fell again from 17.5 months in April to 16.3 in June. The aggregate weekly hours worked index continues its upward trend from 98.2 (revised) in April to 98.6 in June. The employment numbers look better again this quarter but with the participation rate increasing the unemployment rate didn't decline. Nonfarm numbers are close to 200k a month for Q2, less volatile than Q1 and statistically relevant as they are above 150k.

Temporary or part time job services have increased in every month in 2013. With the annual rate at positive 6.7% and the total number at an all time high, the employment market is showing healing signs in certain areas. The **4-week moving average of unemployment claims is 345,750** as of the time of this write up. This is a slow but steady decline. The ISM survey this month rebounded above 50 but it wasn't helped by employment. At 48.7 the employment number is second lowest number in 12 months, showing a slow down in manufacturing hiring. Coupled with a flat "average weekly hours" number for production workers over the past three months, this has confirmed a slowdown over Q2 in production.

Production

Industrial production for June rebounded, but wasn't enough to get into positive territory for the quarter after April and May were both negative. Employment in manufacturing was **down** throughout the quarter and as stated above hours worked were flat. With equity actually up for the quarter and bonds down, this goes against the norm for recession period investing which is how this quarter is designated.

Orders for durable goods have increased since the drop off in March. Year over year orders are excluding transportation and defense (which should be the case given the budget cuts). Even non-defense capital goods are up year over year in May. This is one of the more volatile indexes though and June could show a reversal in line with the production numbers above. **ISM new orders** did rebound in June though which could be a good sign for Q3 GDP. The total **non-manufacturing index** reported a **52.2 for June**, which was the lowest print in the past 12 months, but as long as it remains above 50 it is still in an expansion area. The trends here looks worse than Q1 for sure, let's hope the Fed's second half growth estimates are correct, but I am not seeing it in the data.



TILDEN

Capital
Management

An Investment Advising and Financial Planning Firm

Firm Inception 08/03/10

Housing

Year-over-year changes in **new single-family home sales** have continued their upward trend with an annual increase up 29% for May or 476k homes sold in the past twelve months. Price data from S&P/Case-Shiller Home Price Indices ending June 2013 showed an **annual increase of 12.05%** in the 20-city composite. On the building side, permits for new home construction have averaged **950k for the first 6 months of 2013**. For some context the average permits for the past decade have been around 1250k per year. During the recession the average was around 780k, and since the end of the recession till now it has been around 710k. The fear in the commercial space, as well in the single and multi family, is overbuilding when inventory levels are still high will depress prices. The reported inventory levels from the census show slightly over 4 months of inventory. But this number is only the ratio of homes for sale to houses sold. This doesn't include homes in foreclosure or real estate owned (REO), those properties owned by the lender. Housing is better but 30 year fixed rate mortgages are now 4.5%, essentially shutting down more refinancing for the time being. The percentage of houses with underwater mortgage (negative equity) declined to under 20% from 25% at the end of 2011, and only a quarter of the houses with positive equity have less than 20%.

The Consumer

Consumer confidence continued to gain momentum in Q2 of 2013. With both the Conference Board and Michigan indexes in the 80s as of June, the consumer is definitely feeling better. Employment numbers aren't great but better, stocks are having a banner year, and with home prices continuing to increase personal balance sheets are healing. The "sequester," came and went, and the affects are real to GDP, but less pay in the pockets of people from the payroll tax didn't seem to deter durable good purchases and GAFO numbers (General Merchandise, Apparel and Accessories, Furniture and Other Sales (retail sales categories). They were up year over year from February till May.

Personal Income and Disposable Income both increased during Q2. Real personal income less transfers (removing social security, unemployment, welfare and disability payments) was up and the savings rate actually ticked back up to 3.2% as of May 2013. Consumer credit expanded again with the non-revolving debt (auto and student loans) expanding at 8.0% year over year as of May. The warning signs here are clear, with the White house calling for student loan interest rates to be capped and the majority of issuance from Uncle Sam, the economics here are perverted. With the natural forms of curbing borrowing not in place, why wouldn't a student take advantage of the situation? This is exactly the same thing that happened in housing and we will pay for it again.



TILDEN

Capital
Management

An Investment Advising and Financial Planning Firm

Firm Inception 08/03/10

Inflation

As of June CPI was up 1.76% for June while PCE was only up 1.02% for May. We will see where PCE and the Deflator are by the end of the month. Chairman Bernanke continues to stress that monetary policy will remain accommodative but bond buying will begin to slow this year. The June FOMC minutes had more members concerned about disinflation than inflation, and the anticipation of continual Fed bond buying has seemed to buoy the markets for now.

In Closing

We are now **48 months** into an economic expansion with the **average expansion being 42 months** for the past 33 cycles. Last quarter I said that the next market turn/road sign would be when the Fed signals it is ending QE3 aka the bond buying program. This quarter they did signal it, and it caused a lot of market volatility, probably more than message deserved. As a portfolio manager I rotated out of long duration bonds entirely prior to the June 19th publishing of the FOMC minutes. With an average exposure close to 11% prior to removal I was able to save the portfolios around 60 bps by not being in that sector during another leg down in June.

We are currently exposed to the equity, fixed income (albeit shorter duration), real estate and commodity sectors for the foreseeable future. I believe we currently have around 15% chance of a contraction and will continue to monitor the key economic statistics that govern this estimate.