July 2013

[In This Issue]

BANK AT HOME PremierBank

Improving Economy Will Allow for Fed Tapering

Recent Economic Indicators

Thomson Reuters/Univ. of Michigan Consumer Sentiment	84.1
Consumer Confidence	81.4
Existing Home Sales, Monthly Change	4.2%
New Home Sales, SAAR*	476,000
Personal Income, Monthly Change	0.5%
Personal Consumption Expenditures, Mo Chg	0.3%
Non-farm Payroll Increase/Decrease	195,000
Unemployment Rate	7.6%
ISM Non-Manufacturing Index	52.2
ISM Manufacturing Index (PMI)	50.9
New Durable Good Orders, Monthly Change	2.1%
Industrial Production, Monthly Change	0.0%
Capacity Utilization	77.6
Retail Sales, Monthly Change	0.6%
CPI, Monthly Change, NSA	0.2%
CPI Core, Monthly Change, NSA	0.1%
PPI, Monthly Change, NSA	0.5%
PPI Core, Monthly Change, NSA	0.1%
U.S. Trade Deficit	$45 Bil
Q1 2013 Non-farm Productivity, Qtrly Chg	0.5%
Q1 2013 Real GDP, Quarterly Change, SAAR*	1.8%

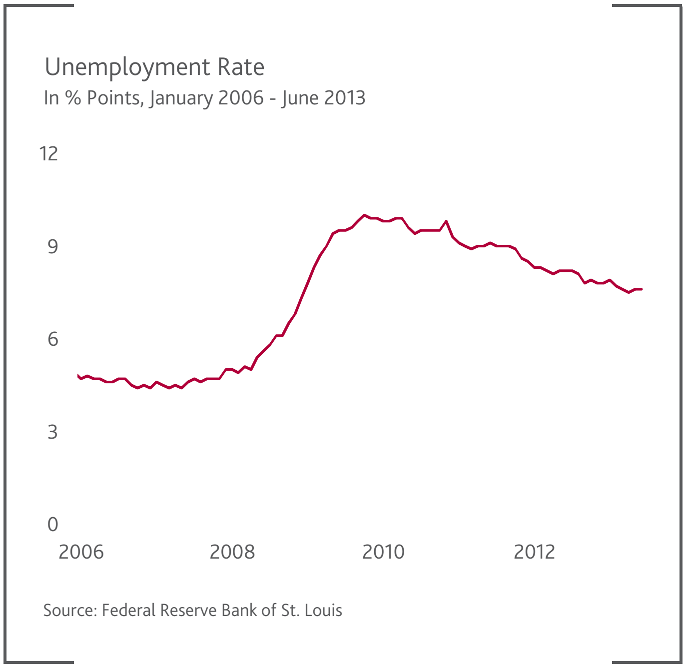
*Seasonally Adjusted Annual Rate
Values reflect most recent data available at the time of publication.
Source: Bureau of Economic Analysis of the U.S. Department of Commerce, U.S. Department of Labor, Federal Reserve, Thompson-Reuters University of Michigan, Institute for Supply Management, National Association of Realtors, The Conference Board, U.S. Census Bureau, Bloomberg.

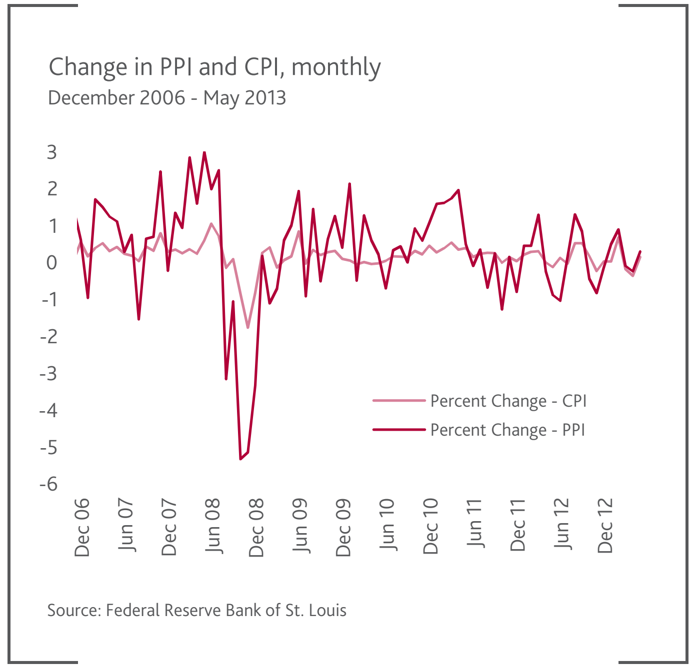
Overview

Fed Chairman Ben Bernanke gave the public a much clearer image of the Federal Reserve's plans in a press conference in June. The Committee believes the downside risks for the economy and the labor market have diminished since fall of last year. As a result they will start cutting back on bond purchases later this year, and if unemployment falls to 7% my mid-2014 they will stop buying U.S. bonds and mortgage backed securities altogether. It is important that we understand this is not the beginning of Fed tightening, but rather just a tapering off of quantitative easing (QE). The Fed has essentially communicated that we will not see rate hikes until 2015 at the earliest, and if the economy weakens they will continue with QE as needed. This is all very supportive of equities, although you would not know it from the market's immediate reaction.

Real GDP growth for the first quarter got a significant and unexpected downward revision. The third estimate was six-tenths below the prior and consensus figures coming in at 1.8%. The downgrade was primarily a reflection of lower personal consumption expenditures than originally thought. Expectations are for second quarter GDP to be moderately positive as well, with growth picking up in the second half of the year.

The U.S. auto sales report for June came in strong due to the improving economy and higher consumer confidence. The Ford Motor Company led the growth, reporting a 13% increase for its Ford and Lincoln brands. General Motors reported gains of 6% and the Chrysler Group reported gains of 8%. These gains were also fueled by increases in pickup and SUV sales supported by the improving housing and construction markets.





Employment

Employment numbers for the month of June were much stronger than analyst expectations. The U.S. economy added 196,000 new jobs during the month, topping expectations of 155,000 and continuing the improving trend we have seen in recent reports. Private payrolls topped 200,000 while government jobs decreased 7,000. Federal payrolls have been declining at a 3.3% annualized rate over the past 6 months, but state and local government employment – which is seven times larger than federal – has stabilized and has basically been flat for the past 18 months after declining the previous three years. The unemployment rate remained unchanged at 7.6% as more workers are seeking out jobs with the improving employment picture, which is also a positive sign. The bond market reacted negatively to the report as it bolsters the outlook for the Federal Reserve to begin tapering asset purchases later this year.

Consumer Confidence & Spending

Consumer confidence was up for the third straight month jumping nearly seven points in June to hit a recovery best of 81.4. Consumers' assessment of the present situation is also at a recovery high, and expectations for the future were up nearly nine points reflecting rising confidence about the job market. Stable gas prices and a rising housing market are also having a positive impact on the confidence.

Retail sales jumped 0.6% in May thanks in part to a 1.9% increase in spending at car dealerships. Even without the automobile component retail sales were up 0.3%. On a year-over-year basis sales are up 4.3%. The consumer has so far proven to be resilient in the face of tax increases, which is a positive sign considering the consumer segment makes up about 70% of our economy.

Inflation

Inflation at the producer level heated up a bit in May on higher food and energy prices, but the core rate remained benign. Headline PPI was up 0.5% as energy rose 1.3% and food rebounded 0.6%, while the core rate edged up only 0.1%. Both headline and core inflation at the consumer level remain tame. CPI rose 0.1% in the month of May and the year-over-year rate of inflation climbed 0.3% to 1.4%. Inflation is likely to remain subdued in the near-term thanks to slower emerging market growth, limited unit labor cost increases, and declining import prices, which is a positive for the U.S. consumer and the U.S. economy.

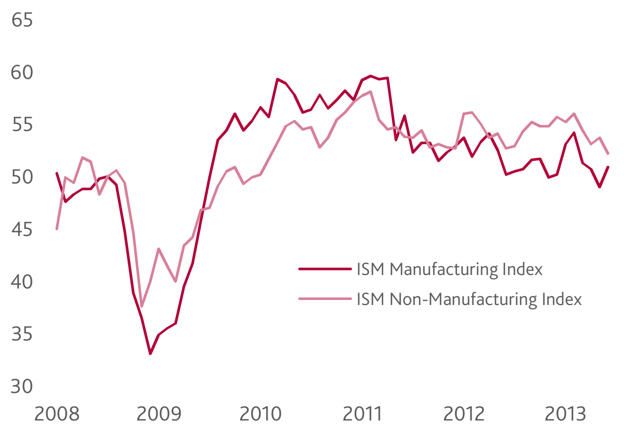
Business Activity

The manufacturing sector still looks soft based on industrial production data for May, new orders for durable goods pointed to strength. Overall production was flat for the month after falling 0.4% in April. Capacity utilization also fell one-tenth to 77.6% in the month. New orders climbed 3.6% after a matching rise the previous month. Much of this was tied to strong aircraft sales which helped the transportation component surge 10.2%, but stripping this out orders still rose 0.7%. Strength was mostly broad-based, indicating that manufacturing may be gaining some momentum.

The ISM's manufacturing index rebounded from the 4-year low it hit in May, climbing 1.9 points to 50.9 and moving back into expansion territory. New orders were up more than three points to 51.9 indicating rising manufacturing activity in the months ahead. The report was slightly better than expected and shows that manufacturing is growing, albeit slowly.

ISM Report on Business Activity

Index Levels from January 2008 - June 2013



Source: Federal Reserve Bank of St. Louis

S&P/Case-Shiller Home Price Index

20 City Composite, January 2001 - April 2013

Source: Federal Reserve Bank of St. Louis

Housing

The NAHB's housing market index blew away consensus estimates by surging eight points in June to 52. It was the biggest increase in over a decade and the first time the reading was above 50 – the dividing line between poor and favorable conditions – since April 2006. Housing starts in May were up less than expected climbing 6.8% to 0.914 million, but the NAHB number suggests this is likely to move higher in the coming months. Low inventories of existing homes have driven many buyers toward new home construction. Existing home supply fell to 5.1 months in May as sales jumped 4.2% and the median price surged 8.4%. Not everything points to a strong housing market going forward, though. Mortgage rates have surged from their recent low, which reduces the principal amount of mortgage one can afford. This in addition to the rise in prices has created a headwind that could cool a housing market that has perhaps heated up a bit too quickly.

Home prices are surging as the lack of supply has fostered a sense of urgency amongst some buyers. The Case-Shiller 20-city index rose 1.7% in April following a 1.9% rise in March, bringing the year-over-year increase up to 12.1%. New home sales were up 2.1% from an upwardly revised April figure to a 476,000 annual pace in May. Builders are picking up the pace to try and meet demand, with inventory edging up 4,000 to 161,000 units – a 4.1 month supply.

World Economy

A peaceful sit-in that was an effort to prevent plans to demolish Gezi Park in central Istanbul exploded into the largest protest movement the country has seen during Prime Minister Recep Tayyip Erdogan more than ten years in office. A heavy-handed response by police has escalated the small protest into outright riots across the country and reveals bigger issues about freedom of speech and a government that has become increasingly authoritarian. The Turkish economy grew by about 9% in both 2010 and 2011, but slowed to 2.2% last year in part due to government measures to prevent the economy from overheating. The unrest in the country has rocked the nation's stock market with the Borsa Istanbul National 100 Index falling 18% by the end of June from its recent May 22 high.

Oil prices began moving higher at the end of the month largely due to the political unrest in Egypt, rising above $100/barrel. Egyptian unemployment, which was 13.0% at the end of last year, has contributed to the unrest. Though Egypt is not a major oil producer, it does control the Suez Canal and its proximity to major exporters has caused a spike in prices.

China's PMI for the second quarter points to a further slowdown in growth for the world's second largest economy, falling to 50.2 from 52.4 in the first quarter. The country is dealing with excessive credit growth, a property-price bubble, and corruption and will likely see its economic growth continue to slow into 2014.

Strong Sell-Off in Major Fixed Income Markets for Second Straight Month

Fixed Income Current Yields		6/30/2013
3 Month U.S. T-bill		0.04%
2 Year U.S. Treasury		0.34%
5 Year U.S. Treasury		1.39%
10 Year U.S. Treasury		2.50%
30 Year U.S. Treasury		3.48%

Total Returns	1 Month	YTD
Barclays U.S. Aggregate	-1.55%	-2.44%
Barclays U.S. Govt./Credit	-1.17%	-1.41%
Barclays U.S. Municipal Bond	-2.83%	-2.69%
Barclays U.S. Corp. High Yield	-2.52%	1.43%
Barclays U.S. Long Credit A	-5.26%	-8.01%
Barclays U.S. Treasury 20+ Year	-3.30%	-8.52%
Barclays Global Aggregate	-1.18%	-4.83%
Barclays Emerging Markets	-4.47%	-6.52%

1 Month and YTD data as of: 6/30/2013

Values reflect most recent data available at the time of publication.
Source: Morningstar, Inc., U.S. Department of the Treasury, Barclays Capital

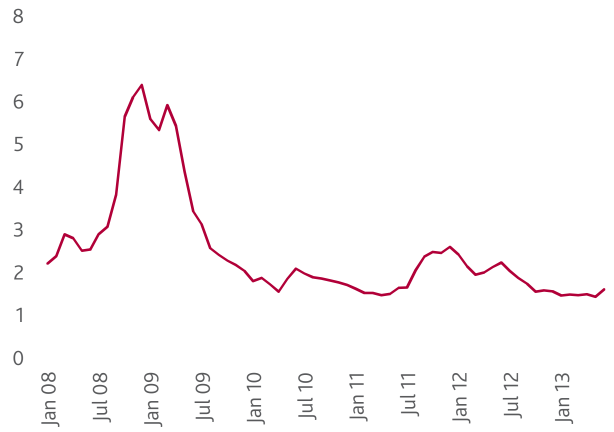
Overview

Largely attributable to concerns regarding a tapering in the Fed's bond purchase program and an unexpected increase in short-term interest rates in China, it appears the rally in the bond market has come to an abrupt end, as technicals (supply versus demand) overwhelmed the markets. The yield on the 10-year Treasury note rose as high as 2.64%, up from 2.16% on May 31 and this year's low of 1.63% reached on May 2. This sell-off has led to a total return of -2.44% for the Barclays U.S. Aggregate Index, the worst first half of a year since 1994.

Suggesting an overall panic, a record $80 billion poured out of bond mutual funds and ETFs in June, nearly double the amount of outflows at the height of the financial crisis in October 2008. Some strategists feel the sell-off could continue after investors receive their quarterly statements and notice their "safe" bond funds posted losses.

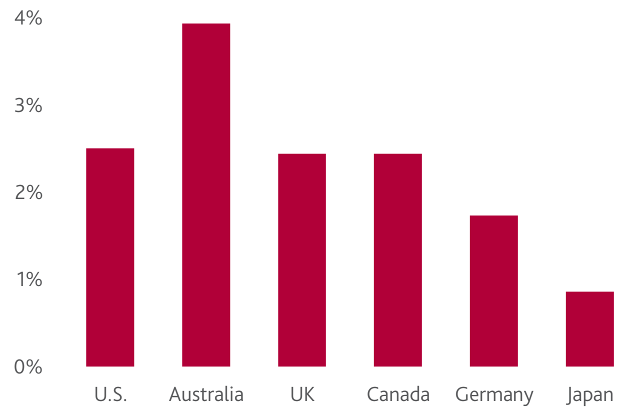
Meanwhile, adding to investor anxieties, market participants must now determine whether individual bonds or bond funds perform better in a rising rate environment. The advantage of an individual bond is that as its maturity shortens over time, its price becomes less sensitive to changes in yields, and barring default, the bond will mature at par. The advantage of a fund when yields rise is that rebalancing over time enables the proceeds to be re-invested in higher yielding securities. Most strategists feel the benefits of the individual bond usually outweigh those of a fund, particularly for a passively managed platform targeting a particular maturity range. However, investors also ought to consider other factors. Another consideration includes the steepness of the yield curve, as the more positively sloped the curve, the bigger the yield pickup will be from extending maturities with re-balancing, suggesting funds will outperform in this environment. Finally, an active manager might be able to position their portfolios for a rise in yields. Still, under most circumstances, strategists recommend individual securities for intermediate and long-term holdings in a stronger rate setting, and funds or ETFs for short duration holdings.

High Yield Bond Spreads
In % Points, January 2008 -June 2013



Source: Federal Reserve Bank of St. Louis

10-Year Government Bond Yields
Latest Yield as of 06/30/2013



Source: Federal Reserve Bank of St. Louis

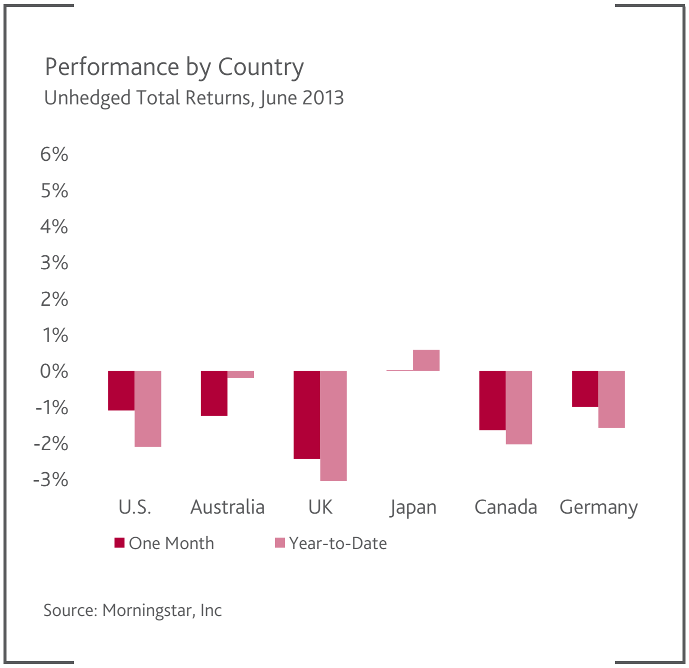
Corporate

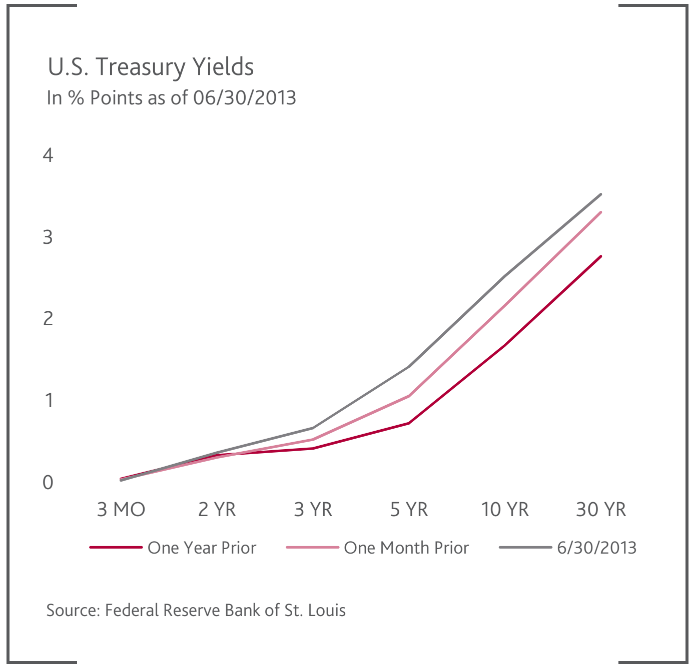
Due to steepening spreads along with a high correlation to U.S. Treasuries, the investment grade corporate sector finished significantly lower, losing 2.76%, the highest monthly loss since the credit market crisis. After continued strength for most of the year, mutual fund flows have finally begun to turn negative, with intermediate- and long-term investment grade funds reporting their largest outflows ever. Adding to downward pressure, a significant outflow from the PIMCO Total Return fund, with approximately 25% corporate bonds, underscored the importance of total return funds to the investment grade market. Because total return funds represent more than 50% of the overall market for bond funds, outflows can have a significant impact on corporate bonds. At the same time, short-duration funds saw significant inflows, with the iShares Barclays 1-3 Year Credit Bond Fund (CSJ) gaining $1 billion in new money flow this year. Going forward, while long-term credit spreads should eventually benefit the most from higher interest rates given the more yield-sensitive buyer base of long bonds, we believe that aversion to duration will persist until interest rate volatility subsides.

High yield bonds fell by 2.62% for the month, bringing year-to-date returns to 1.42%. Similar to investment grade corporates, while short duration mutual fund flows have been better than the rest of the high yield market (inflow of $110 million in May-June), they were not nearly enough to make up for outflows from intermediate funds of $12.1billion, taking the net year-to-date number to -$11.2 billion for this sector of the market. Meanwhile, floating rate loan fund inflows remained strong, with an additional $5.4 billion of net new money for the month and year-to-date inflows of $32.2 billion. In the short-term, until fund flows stabilize, we continue to prefer a focus on short-duration high yield even though monetary policy and the underlying health of the corporate sector remain supportive of the high-yield market.

Municipals

After losses of 1.22% last month, the Barclays Municipal Bond index fell by 2.83%, its worst monthly loss since 2008. Investors withdrew over $4.5 billion from municipal bond mutual funds during the last week of the month, the largest level ever since Lipper started tracking them in 1992. More susceptible to bond fund outflows than other fixed income asset classes given their retail investor focus, this sector underperformed the broad market index by a considerable margin. In a sign of the magnitude of losses, the $3.4 billion iShares S&P National AMT-Free muni ETF fell by almost 4% for the month. However, some strategists now feel munis represent an attractive opportunity given the combination of higher yields and empirical research indicating virtually all large sell-offs lead to strong rallies, with AA yields declining by 0.55% on average over the succeeding two to three months. The largest sell-off occurred in 2008, after the Lehman Brothers failure, with yields increasing by 1.38%. Because muni yields have recently increased by nearly 1.00% over the past two months, and the current market environment remains far stronger than the precarious state of 2008, strategists feel downside risk is limited in this sector of the market. We continue to be optimisitc about munis with an emphasis on a defensive structure in the form of above-market coupons. Our focus maturity range for yield curve positioning remains five to seven years, preferring "A" rated GO and essential service revenue bonds.





International

The Barclay's Global Treasury ex-US index returned -0.46% on an unhedged basis, but lost 1.03% on a local currency basis, consistent with a stronger U.S. dollar against other major currencies. All major country government and peripheral bonds, with the exception of Japan, posted losses, as many safe-haven countries including Canada, Australia, France and the United Kingdom fell by more than 1%. Meanwhile, Standard & Poor's cut Italy's sovereign credit rating to BBB from BBB+, citing concerns about prospects for an economy stuck in its worst recession in almost 70 years. "The rating action reflects our view of the effects of further weakening growth on Italy's economic structure and resilience, and its impaired monetary transmission mechanism." S&P said in its statement. Italy's economy, the euro zone's third largest, has been one of the most sluggish in the world, held back by a weak political system and public debt of more than 130% of GDP. S&P also noted that economic output fell 8% between the final quarter of 2007 and the first quarter of 2013, noting data pointed to an expected drop for the entire year of approximately -1.9%. This recession is making it more difficult for newly elected Prime Minister Enrico Letta to reach European Union budget targets for the country while also meeting demands from Italian political allies for tax cuts. However, helped by ECB pledges of support, Italy's borrowing costs remain reasonable with yields on ten-year notes in the area of 4.4%.

Outlook

Catching many market participants by surprise was the magnitude of the sell-off over the last two months; historically, increases in interest rates driven by expectations of a stronger economic outlook have resulted in a more balanced rise in real rates. Because inflation remains well contained, real rates have now jumped to levels not seen in over three years. However, we feel the sell-off has likely gone too far, with concerns of tapering leading to a quicker onset of Fed tightening overdone. Fed fund futures suggest the market is now pricing in roughly a 50% probability of a rate hike to 0.5% as soon as December 2014, compared with a 20% chance two months ago. Contrary to popular opinion, the suggestion of slower asset purchases does not necessarily indicate the FOMC is any closer to hiking short-term interest rates. As always, the timing of rate increases depends on economic growth and inflation expectations, prospects for which have not changed significantly. In the short-term, we expect rates to remain volatile and even more data dependent. From a longer-term perspective, we continue to prefer an underweight to the fixed income markets, particularly Treasuries, TIPS and long-duration bonds, given a poor risk/reward outlook. Our tactical position in bonds remains at a 6% underweight in a Balanced investment objective relative to strategic targets.

A June swoon for stocks

Total Returns	1 Month	YTD
Dow Jones Industrial Average	-1.25%	15.20%
S&P 500	-1.34%	13.82%
NASDAQ Composite	-1.42%	13.43%
S&P 100	-1.64%	12.74%
S&P 400 MidCap	-1.85%	14.59%
S&P 600 SmallCap	-0.15%	16.19%
Russell 2000	-0.51%	15.86%
MSCI EAFE	-3.53%	4.47%
MSCI EAFE Small Cap	-3.62%	5.93%
MSCI Emerging Markets	-6.32%	-9.40%

1 Month and YTD data as of: 6/30/2013

Values reflect most recent data available at the time of publication.
Source: Morningstar, Inc.

Overview

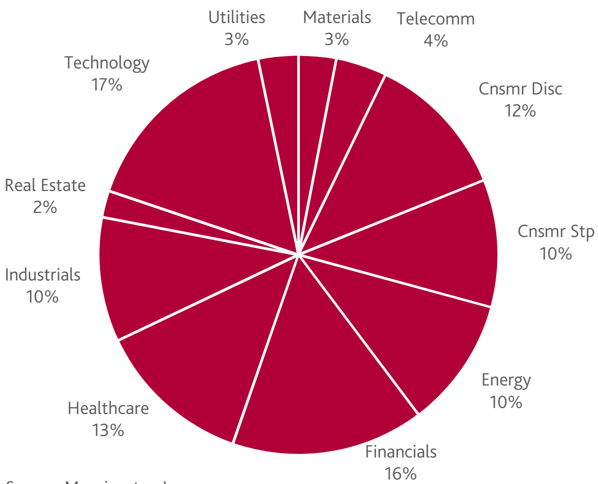
Major U.S. stock markets declined in June after six consecutive positive months while international stocks continued to be weak. Anxiety regarding the timing of the end of the Fed's quantitative easing program, mixed economic data in the U.S., and global growth uncertainty led investors to sell domestic stocks after mid-teen returns through the end of May. Despite the efforts by Fed officials to calm markets by stating they would pull back slowly on QE and only if the U.S. economy was strong enough, investors' anxieties led to the weakness. Fund flows out of international ETFs and mutual funds were especially high.

The total return for the Dow Jones Industrial Average in June was -1.3% with the index closing at 14909.60. The broader S&P 500 Index return also fell 1.3%, finishing at 1606.28. The NASDAQ Composite Index ended the month at 3403.25, posting a return of -1.4%. For the second quarter, the Dow and S&P 500 Index were both up 2.9%, while the NASDAQ returned 4.5%. Year-to-date through the end of June, the indices returned 15.2%, 13.8%, and 13.4% respectively. The Dow posted its best six-month start to the year since 1999, but was down 3.2% from its peak on May 28th.

Second quarter domestic corporate earnings are likely to be lackluster again with most analysts calling for a return to growth in the third quarter of about 8% year over year and 14% in the fourth quarter. The good news is that expectations are so low for this quarter's earnings after higher than normal negative preannouncements that stocks are likely to outperform on positive surprises.

S&P 500 Sector Breakdown

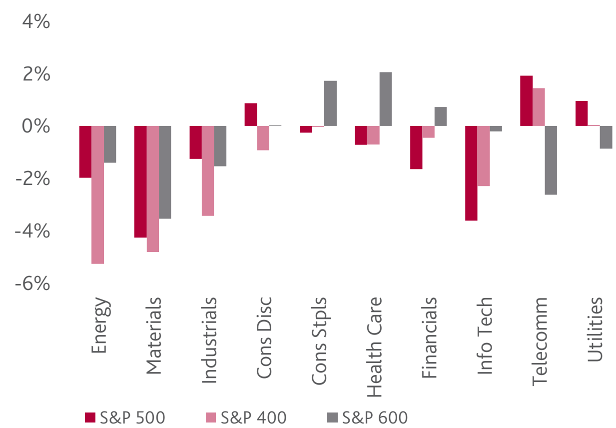
Month-End Percentages



Source: Morningstar, Inc

S&P 500 Sector Performance by Market Capitalization

One Month Return As of 06/30/2013



Source: Morningstar, Inc

Domestic Equity

S&P Sectors that declined the most in June included Materials (-4.3%), Information Technology (-3.6%) and Energy (-2.0%). Materials returns have been impacted by slowing global demand for commodity related goods. Newmont Mining was down 11.6% while Freeport McMoran Copper & Gold fell 7.9%. In IT, Apple continued its slide, down another 11.8% in June. Oracle's weak quarterly results caused the stock to fall 9.1%. Telecomm Services (+1.9%), Utilities (+1.0%) and Consumer Discretionary (+0.9%) were the only sectors that posted positive returns in June. For the first half of the year returns for Health Care (+21.1%), Consumer Discretionary (+19.8%) and Financials (+19.5%) were very strong, while the Materials (+2.9%), Information Technology (+6.4%) and Energy (+9.8%) sectors trailed far behind the benchmark. Apple's 25% decline weighed heavily on the IT sector.

According to Standard & Poor's, small cap equities outperformed both mid cap and large cap equities in June. The Small Cap 600 Index declined only 0.2%, better than the returns for both the S&P 500 Index (-1.3%) and the S&P MidCap 400 Index (-1.9%). For the first half of the year, small cap equity (+16.2%) returns were higher than for both mid-cap (14.6%) and large cap (+13.8%).

Value stocks outperformed growth across the market capitalization spectrum in the month and also year-to-date through the end of June. Small cap value stocks posted the strongest returns year to date (+16.6%), while large cap growth equities have lagged (+12.0%).

International Equity

Developed international equity indices declined even more than domestic markets in June. The broad MSCI EAFE Index of developed markets fell 3.5% in U.S. dollar terms for the month as all countries posted negative returns with the exception of Japan. Japan was quite volatile in the month as the yen strengthened and investors continued to take profits after very strong gains from November to May, but still had a positive return of 1.8%, leading all major countries. Italy (-11.0%) and Spain (-7.3%) saw bond yields spike in response to uncertainty about quantitative easing. Concerns that interest rate moves in the U.S. could lead to a resurgence of the eurozone crisis caused the selloff in European stocks. For the first six months of 2013, the developed markets index posted a positive return of 4.5%. The MSCI country index for Japan continued to lead all returns (+16.4%), while other major markets such as France (4.1%) and Germany (+3.7%) were closer in line to the benchmark. The UK (+0.3%) trailed far behind.

The MSCI Index for Emerging Markets was very weak, falling 6.3% as technical selling pressures aggravated losses. Of the BRIC countries, Brazil was especially weak, falling 12.5%, followed by China (-6.8%), India (-6.6%) and Russia (-2.7%). Volatility in China's money market rates led to heightened uncertainty regarding China's economic growth prospects. Benchmark money market interest rates tumbled late in the month after the People's Bank of China applied pressure on banks to release more cash to ease the worsening liquidity crunch. Brazil's credit rating was cut by S&P to BBB, while inflation was reported to reach 6.5%. Protestors took to the streets in Brazil to express dissatisfaction and discontent with the government. Through the first six months of the year, the emerging markets index was down 9.4%. Concerns about slowing global economic growth have caused investors to focus on strength in developed markets, especially the U.S., at the expense of developing market stocks.

Slow growth hurts commodities; Hedge funds and REITs move lower

Price Change	1 Month	YTD
Dow Jones UBS Commodity Index	-6.44%	-10.81%
Oil	4.82%	4.93%
Copper	-7.55%	-14.84%
Gold	-12.15%	-26.98%
NAREIT-All REITs	-2.91%	3.27%
NAREIT-Industrial/Office	-3.26%	5.24%
NAREIT-Residential	-0.17%	5.33%
S&P Global Property Ex-US	-4.40%	-0.65%
HFRI Emerging Markets Index	-3.96%	-0.28%
HFRI Fund Wtd Comp. Index	-1.31%	3.59%
HFRI Equity Market Neutral	0.43%	3.34%
HFRI Event Driven	-1.16%	5.44%
HFRI Market Defensive	-2.70%	-1.94%
HFRI Merger Arbitrage	-0.49%	1.21%
HFRI Short Bias	0.74%	-9.96%

1 Month and YTD data as of: 6/30/2013

Values reflect most recent data available at the time of publication.
Source: Morningstar, Inc.

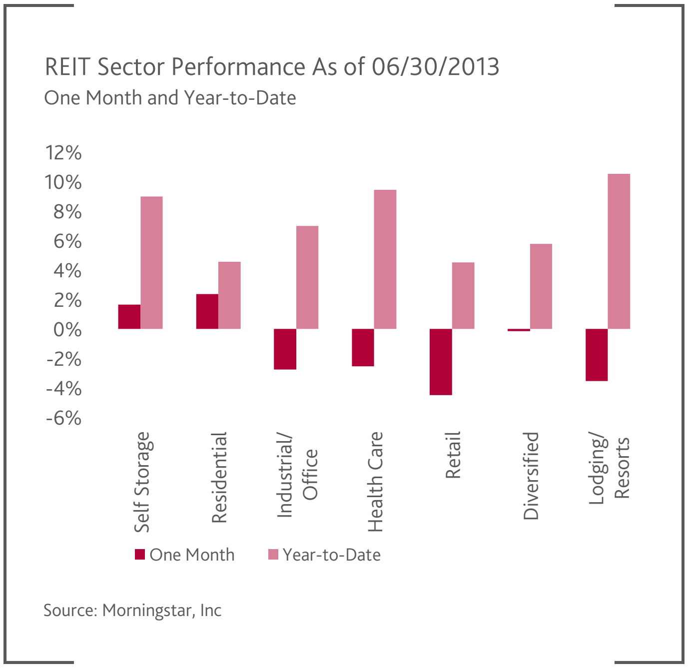
Overview

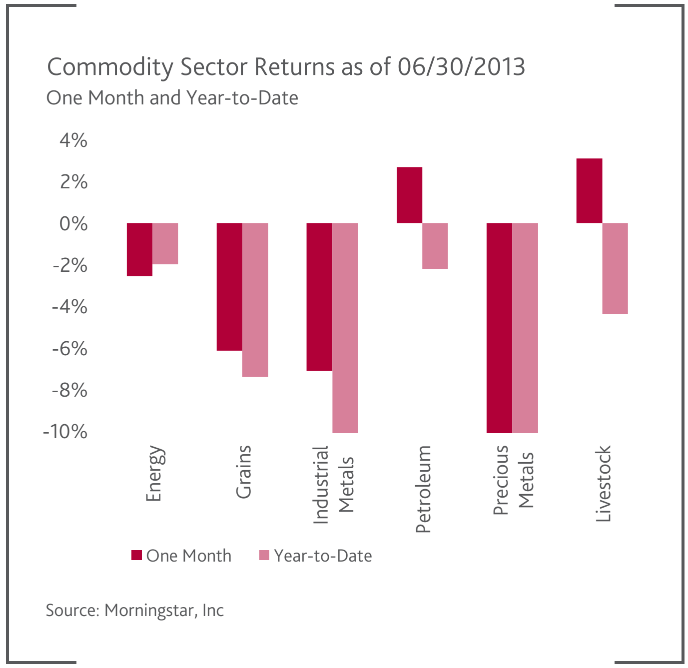
Alternative investments saw notable losses across the board in June as commodities, hedge funds, and real estate all experienced declines. Rising interest rates and continued weakness across emerging market economies played a major role in the under-performance of these asset classes.

Commodities

Commodities experienced another tough month in June as the DJ UBS Commodity Index fell 4.71%, bringing the total return for the second quarter to -9.45%. Commodities have been hit hard as China's growth has fallen below expectations and growth in the emerging market economies in general has slowed in the first half of 2013. Most major commodity indexes are down significantly, including precious metals and agricultural commodities. Energy has held up surprisingly well as the other indexes have fallen.

Brent crude and West Texas Intermediate prices have moved closer together throughout the first half of the year to reach the narrowest spread since January of 2011. Brent ended the month at $103/barrel and WTI at $97.99/barrel, marking a spread of just $5.01 (compared to an average of $16.04 during the last two years). Brent moved up 1.86% in June while WTI gained 4.82%, bringing the year-to-date returns to -4.94% for Brent and 5.58% for WTI. This movement can generally be attributed to infrastructure and transportation development as new pipelines have allowed the major east coast markets to more efficiently take WTI shipments from across the United States rather than depending on Brent shipments from overseas. This has also had the effect of lessening our dependence on foreign oil and OPEC's supply controls. Although there have been concerns about emerging market growth slowing, this has yet to have a major impact on the oil market in particular. Although it may have some effect in the future, it is not likely that this economic slowdown will bring prices down significantly as China and other emerging economies continue to increase carbon-based electricity generation and transportation usage.





Gold and silver both dropped over 12% in June to mark a 23% drop for the second quarter of 2013 for gold and a 31% fall for silver prices. "Gold hates any good U.S. data at this stage," said Kathy Lien of BK Asset Management, "because any kind of good news is driving the dollar sharply higher, and gold is just being punished as a result." Rising treasury yields not only give strength to the U.S. dollar but also weaken the opportunity cost of owning zero-yielding gold. Gold funds have seen massive outflows and the price is the lowest that it has been in years, which could bring the metal back into focus for investors.

Hedge Funds

Hedge funds posted their first monthly decline for 2013 in June, ending a streak of seven consecutive months of gains, the longest run of positive performance seen by the industry since 2011, according to Hedge Fund Research (HFR). Battling volatile stock and bond markets, in June the average hedge fund lost 1.3% to end the first half of the year, while the broader S&P 500 fell about 1.7%. Hedge funds have gained 3.6% for the year, but still trail the S&P 500 significantly, which is up 12.6% during the first six months of 2013. Stock and bond markets went into a tailspin last month after Federal Reserve Chairman Ben Bernanke indicated that the central bank may begin to taper its easy money policies as early as this year.

All four main HFRI Strategy Indices posted losses for June, with declines led by Macro and Equity Hedge strategies. The HFRI Macro Index posted a decline of 1.5% with negative contributions from Trend Following Strategies, Fixed Income, Emerging Markets and Commodity Metals exposures. According to HFR, Emerging Markets posted losses across equity, sovereign bond and current markets, as U.S. yields rose significantly for the month; HFRI Emerging Markets Index declined by 4%, led by declines in Emerging Asia and Latin America, which declined 5.7% and 5.2%, respectively. According to Kenneth Heinz, President of HFR, risk-off sentiment dominated June hedge fund performance as investors and fund managers "positioned for curtailment of stimulus efforts by the U.S. Federal Reserve, resulting in increased volatility and pressuring emerging market, interest-rate sensitive and commodity-focused funds."

REITs

Real estate investment trusts (REITs) finished the first half of the year on a downward spiral, posting losses in both May and June, but managed to post gains as of the end of June. The FTSE NAREIT All REITs Index is up 5.41% through the first six months of the year. After losing 2.3% in June, REITs recent performance has represented a reversal from the beginning of the year, when the REIT market had total returns of 14.5% from January through the end of April. REITs were soaring for most of the first half of the year as "modest economic recovery combined with limited new construction set a solid foundation for operating fundamentals," according to NAREIT. But as the economy started to slowly improve, the Fed indicated that the government intends to pull back on its quantitative easing policies in the near future. Rising interest rates are usually a strong headwind for any capital-intensive industry such as real estate, so accordingly, REITs got hit hard as rates moved upward.

The FTSE NAREIT All Equity REITS Index finished the first half of the year up 5.79, lagging the S&P 500, which was up 12.6%. In terms of investment performance by property sector and subsector, the biggest winner so far this year has been Lodging/Resorts REITs, up 10.52% through the end of June. Retail REITs, composed of Shopping Centers and Regional Malls, which gained 26.74% in 2012, are only up 4.52% through the first six months of the year. Timber REITs are also off from a year ago, only gaining 5.56% after posting returns of 37.05% last year.

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