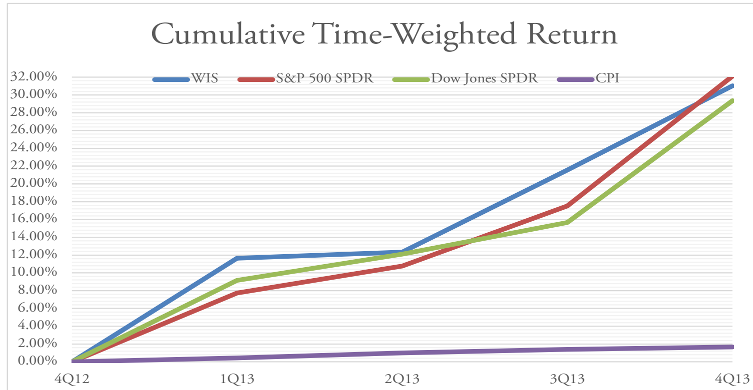
Williams Investment Society

Washington and Lee University

Q4 2013 WIS Update



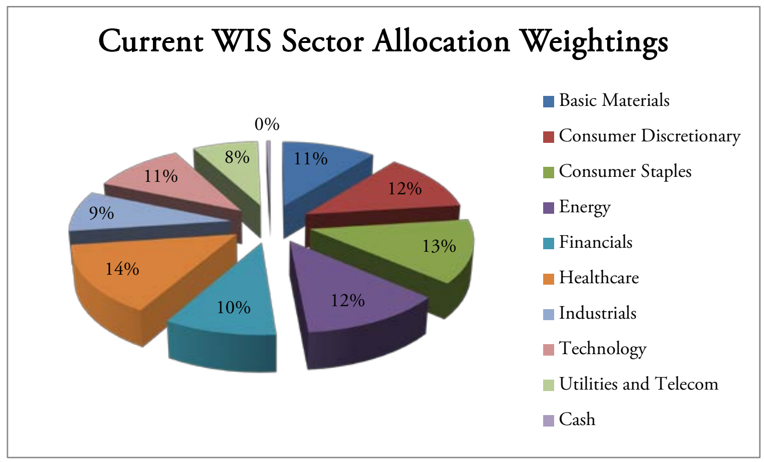
WIS Summary

The Society employs a top-down investment procedure to identify superior companies trading at reasonable prices. The Society believes that through extensive research and analysis, it can identify companies priced by markets at significant discounts to their intrinsiv values.

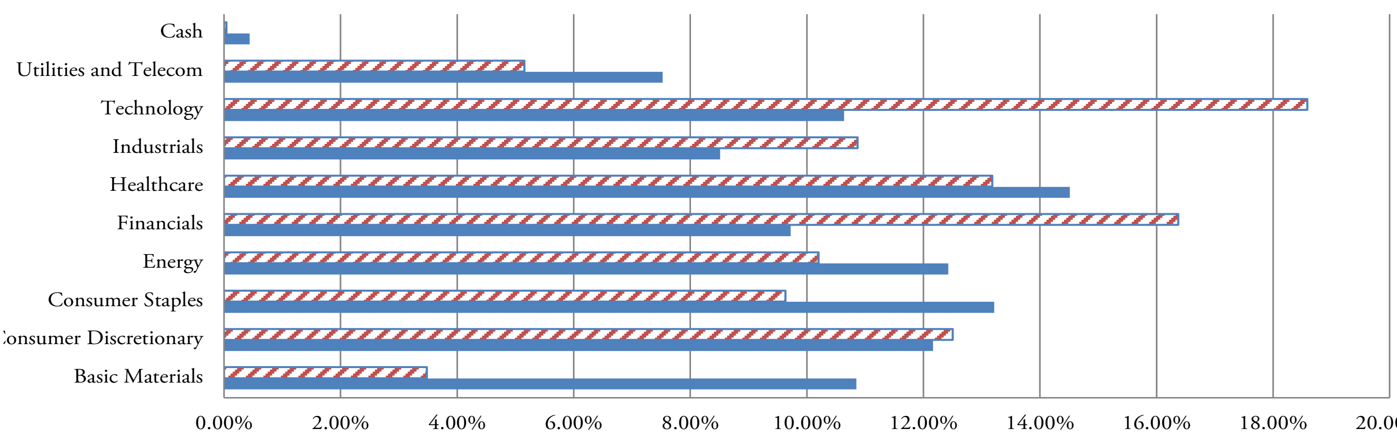
Firms must have at least $500 MM in market capitalization and a minimum share price of $5. WIS will not hold more than 5% of its portfolio in a single stock.

Performance Summary

Equities capped off a stellar 2013 with a positive 4Q13. Although to a lesser extent, WIS anticipates 2014 proving to be another strong year for equities. Increasingly robust economic growth coupled with US tapering will undoubtedly make 2014 more difficult than 2013. As interest rates rise with the termination of QE3, relative value flows will continue to negatively impact many large cap, dividend yielders in the utilities and telecomm sector. Confidence, net worth, and employment gains should translate to both higher incomes and consumption of discretionary goods relative to indiscretionary. Similarly for firms, optimism, strengthening orders, global growth, years of underinvestment, and the temptation to lock-in the low interest rates may stimulate a pick-up in both capital spending and financial activity, continuing to buoy the industrial and financial sectors.



WIS 4Q13 Sector Weightings vs S&P 500 SPDR Weightings



	Basic Materials	Consumer Discretionary	Consumer Staples	Energy	Financials	Healthcare	Industrials	Technology	Utilities and Telecom	Cash
S&P 500 SPDR	3.48%	12.50%	9.63%	10.20%	16.37%	13.18%	10.87%	18.58%	5.15%	0.04%
WIS	10.85%	12.17%	13.21%	12.43%	9.72%	14.51%	8.51%	10.64%	7.53%	0.44%

David Fishman
Executive Director
fishmand14@mail.wlu.edu

Max Farrington
Associate Director
farringtonm14@mail.wlu.edu

Trey Hatcher
Associate Director
hatchert14@mail.wlu.edu

PORTFOLIO OVERVIEW

The Williams Investment Society exceeded $2,000,000 of assets under management for the first time in the portfolio's history. Despite closing out a phenomenal year with a relatively weak fourth quarter, the Society marginally underperformed the benchmark index for the full-year 2013. The portfolio appreciated 7.79 and 31.03 percent for the quarter and year respectively as 15 of the positions held throughout the fourth quarter realized double digit returns. During the fourth quarter, robust performances in the healthcare, industrial, and technology sectors propelled the portfolio higher. The quarter's principle laggards were plagued by interest rate related headwinds. On a risk-adjusted basis, the portfolio realized an alpha of approximately -1.68 for the full year 2013 using the SPDR S&P 500 ETF as a benchmark. Overall, the Society's net asset value appreciated from $1,538,783 to $2,016,276 year-over-year.

The Society reduced the basic materials portfolio weighting by 200 basis points in the first quarter of 2013, and the entire reduction came from the precious metals subsector. This decision has continued to prove advantageous. Precious metals are continuing to trend downward, highlighted by gold's double digit fall during the quarter. SLW, the portfolio's largest underperformer, is highly levered to silver and gold. As US monetary policy continues to tighten—highly correlated with stronger economic data, thus heightened economic certainty—the firm will continue to face severe headwinds as prices of precious metals decline. Additionally, the firm has faced facility-related issues, negatively impacting the equity's price. Acknowledging the previous issues, management has provided guidance for healthy, double digit organic growth over the next five years. From a broader portfolio management perspective, maintaining some exposure to precious metals provides a hedge against potential, unforeseen systematic market risks and shocks. On a longer time horizon, once the price of precious metals normalizes, the firm can realize the benefits of its considerable margins and rapid growth.

VTR, too, has continued its descent as a result of rising interest rates. As a healthcare REIT, rising interest rates potentially compresses net interest spreads, lowering potential payout and growth prospects. Still, the Society acknowledges the validity of this factor but believes that the growth prospects for VTR are both bright and overlooked. The firm provides impressive double digit growth in a sector where the service provided is inelasticaly demanded, a leverageable business platform. VTR owns—and increasingly manages—health-care related facilities, which benefits from an aging demographic with few alternatives. Given, rising interest rates put pressure or REITs ability to lever interest margins for returns, VTR has continued to lock-in longer-term financing to ensure that it benefits from the low rate environment for the medium and long-term. Moreover, WIS considers the ability of VTR to continue to make successful acquisitions and expand its RIDEA dependent operations as key drivers of future equity appreciation. Once markets become more comfortable with higher interest rates, the fundamentals will return to the forefront. As a REIT with a 4.75 percent dividend yield, the firm is also susceptible to interest rate rises changing relative value decisions for investment managers.

The portfolio's two top performers during 4Q13—both appreciating about 20 percent—are CVS and GILD. Gilead has continued its consistent outperformance. Boasting an unrealized return of 151 percent, the firm's deep product pipeline, frequently translating to new, innovative drugs, and rapid product sales growth have ostensibly been catalysts every quarter of 2013. During 4Q13, positive news for GILD regarding its Hepatitis and HIV medications in both America and Europe provided a tailwind for the equity's appreciation. CVS reported robust 3Q13 EPS growth of 25 percent, raising its full-year guidance, providing a key catalyst for the position during the quarter. Going forward, the drug retailer is set to realize gains from maintaining a superior market position relative to peers regarding the Affordable Care Act, the aging of baby boomers, and the growth in specialized pharmacies. CVS's #1 or #2 ranking in US drugstores, pharmacy benefit management, Medicare Part D insurance plans, and specialty pharmaceuticals make the holding well positioned for continued long-run outperformance.

Throughout 2014, the Society intends to continue alleviating the significant discrepancies between WIS's sector weightings and those of the benchmark index as the Society deems necessary. At the end of the fourth quarter, basic materials, financials, and technology remain materially under or overweight relative to the benchmark. Year-over-year, the portfolio has reduced its weighting by 300 and 100 basis points for consumer staples and basic materials respectively while increasing the weighting of both the financial and technology sector by 100 and 200 basis points respectively. This subtle reweighting is in line with previous reports. A heavily overweight position in basic materials leaves the portfolio susceptible to heightened volatility surrounding shifts in global monetary policy and demand. In particular, the precious metal subsector is a concern, while the Society anticipates growing global demand to benefit many of the other subsectors. The consumer staples sector provided a stable backbone to the portfolio during the previous, low-yielding and highly uncertain investment environment. But with changes in relative value investments and improved growth prospects globally, the Society no longer deems the sector to merit such a large overweight position, preferring to continue deploying financial capital in higher growth sectors. By remaining considerably underweight the technology sector, WIS potentially misses out on a significant amount of innovation, characteristic of the space. Regarding financials, as both global economic activity and capital markets continue to improve, transaction volume within the space is anticipated to accelerate in 2014. Whether real estate, banking, credit rating, or asset management, WIS anticipates the additional weighting in financials to benefit the portfolio in 2014 along with increased exposure to the technology sector.

On a broader asset management perspective, it should be noted that the portfolio's beta appreciated greatly at the end of the quarter with the recent sale of DLTR, JOY, BNS, AKAM, and TRP and the complementary acquisitions of PII, CBI, SCHW, MSFT, and ARLP respectively. Acknowledging that record index highs is a questionable time to take on further portfolio risk, the Society favorably views the potential for growth stocks to outperform their peers as a result of the anticipated acceleration in US economic growth in 2014. These higher growth stocks will enable the portfolio to capitalize on companies with strong business models who are well-positioned to leverage themselves in a growth environment.

ECONOMIC OVERVIEW

GLOBAL

Although generally positive, 2013 proved to be a mixed bag for the aggregate global economy. While developed nations continue to show signs of economic acceleration, a few key growth markets have continued to underperform. Overall, global GDP growth has been revised down below 3 percent for 2013 and many analysts have reduced their forecasts to mid-3 percent range for 2014, below prior estimates of around 4 percent. A considerable portion of the softer than anticipated global data is derived from the underperformance of India and Brazil. This trend of weaker growth is expected to continue as the two countries have seen their 2014 growth expectations revised down nearly 1.5 percent each.

Prospects appear more optimistic for developed countries, as the US, Eurozone, and UK are positioned to accelerate. Assuming stable fiscal policy and mildly tighter monetary policy, US growth could appreciate to around 3 percent for the full year 2014. The UK, headed by robust readings for both the manufacturing and service sectors coupled with a frothy real estate sector, has realized more robust growth than anticipated, indicating that Carney's monetary policy may prove tighter than expected earlier, or at least targeted at mitigating any substantive risk of a real estate bubble. Although the Eurozone realized another mild contraction, expectations are for tepid, but positive growth next year, despite a weakening France. Japan's rate of GDP may decline to mid 1-2 percent as a result of increased taxes. However, years of monetary and fiscal stimulus have left Japan with government debt over 230 percent of GDP, badly requiring a credible, long-run fiscal agenda.

China will continue to support global growth in 2014. Following a high 7 percent rate in 2013, GDP growth expectations are for an acceleration to 8.2 percent in 2014. Following China's recent Third Plenum, President Xi Jinping has begun consolidating the President's political authority. Moreover, the People's Republic has publicly announced steps to reform the One-Child Policy, private investment restrictions in state-owned enterprises, rural land reforms, and financial restriction—through interest rate and capital account liberalization. Additionally, the global economy, especially developing countries, may benefit from the first major WTO agreement in 18 years. Some of the most optimistic estimates forecast the accord to garner an additional $1 trillion to the world economy. The agreement permits developing nations to continue subsidizing crops to bolster food security without global reciprocations as repercussions.

US

Following a particularly strong third quarter GDP reading, the U.S. economy has continued to show evidence of realizing a virtuous economic cycle. The 4.1 percent growth rate in the third quarter was primarily catalyzed from a build-up in inventories, accounting for approximately 1/3 of the GDP expansion, implying there will be less inventory build-up in 4Q13, indicating a reduced rate of GDP growth. The rapid increase can imply that either expectations for future demand are growing or that the businesses' realized weaker consumer demand than expected. Many analysts initially noted the potential for the latter to be the case, yet, throughout the fourth quarter there has been a tangible improvement in both business and consumer sentiment. After consumer confidence fell to the lowest point in 6 months as a result of the combination of the debt ceiling and government shutdown in October, the readings have shown a sharp rebound throughout the fourth quarter. Despite the green shoots in December, consumer confidence indexes remain nearly 20 percent below readings indicating strong phases of economic growth and job creation. Still, a combination of appreciating equity markets, real estate values, and employment data have provided continued support for household net worth. Some analysts speculate that that the predominant benefactors of the aggregate wealth gains are concentrated in a small minority with a lesser propensity to spend, yet these three factors will unambiguously contribute to overall consumer sentiment, facilitating positive feedback within the real economy.

Regarding business sentiment translating into capital expenditures stimulating real, long-term growth, the forward looking core capital-goods orders accelerated in the back half of fourth quarter, a good proxy for business investment. The third quarter showed strong real nonresidential fixed investment growth, and the subsequent new annual record of corporate bond issuances, selling approximately $1.5 trillion, reiterate the point. Stimulated from near record low borrowing costs, the default rate for U.S. speculative-grade debt dropped to approximately 2.5 percent, 1 percent lower than a year earlier, demonstrating the private sector's continued improvement. The recent passage of a bipartisan federal budget—eased $63 billion of sequestration—along with limited potential headwinds should enable further appreciation in private sector confidence.

Further reiteration of the economy fostering a virtuous cycle is evident in the unemployment rate. A basic gauge of aggregate economic health, skewed slightly from the continued shifts in labor force and part-time employment, demonstrates the overall improvements in US economic conditions. Excluding December's disappointing reading, nonfarm payroll monthly readings have been averaging low 200,000s since August. Recent upward revisions and a diminishing labor-participation rate have all greatly contributed to the US unemployment rate falling to 6.7 percent. The monthly employment numbers appeared to have stabilized around 200,000—many forecasters are not looking too far into December's reading—which is improved from prior quarters, yet, the US requires consistent readings closer to 250,000 in order to sustainably reduce the unemployment rate without individuals leaving the labor force. In December, 350,000 US workers left the labor force, an astounding number, topping off 2013, a year where the US labor force actually shrank. This potentially could be a negative indicator about fundamental, underlying economic health related to some recent policy initiatives, or merely a factor of the aging baby boom demographic exiting the workforce, but, it should be noted that the private sector has shown evidence of strength, as ADP reported private sector employment growth of 238,000 in December.

In spite of the improving labor market, real average hourly wage growth remains tepid, as nominal rates are only moderately faster than the rate of inflation. A statistic that has been reflected in moderate retail sales and other consumption measures. Given the brinkmanship over the Treasury debt limit leading up to October, private payrolls have demonstrated resilience in the face of a serious headwind throughout the fourth quarter. This proven durability might be a further indication of overall economic strength and future real wage gains.

Still not exceptional, the US manufacturing and service ISM readings have shown moderate to strong readings throughout the fourth quarter. The service readings moderated during the beginning of the quarter but the November and December readings showed evidence of multi-year highs. The ISM signaled the second fastest pace of factory output in two years while the PMI factory index hit a three year high, easing slightly in December. Further optimism is demonstrated from the new orders gauge. A potential positive indication for capital spending in both the domestic and global real economy. Interestingly, not all regional indexes mirrored this strength. Both the Empire State and Philadelphia Fed's manufacturing indexes slowed. In November, the Empire State general business conditions index showed contraction for the first time since May and the new-orders component declined further to negative 5.5. The Philadelphia Fed's manufacturing index, remaining mostly positive, but slowed to the lowest reading since May as well. The Chicago region's gauge of business activity has continued demonstrating strength during the quarter.

One of the most significant questions for 2014 is how tighter US monetary policy will impact the economy, especially as interest rates along the term structure continue their ascent. Understanding that "tighter" is a relative statement, the Fed announced during mid-December that the central bank is trimming its monthly bond purchases to $75 billion from $85 billion. The central bank is probably poised to reduce the aggregate monthly purchase amounts in $10 billion increments over the next seven meetings before ending the program in December of 2014. Of course, the pace will be data-dependent. Weaker data may incentivize the Fed to postpone a reduction, and the inverse may cause an acceleration in the rate of asset purchase reductions. By the end of QE3, the Fed's balance sheet is anticipated to rise to a record $4.4 trillion, nearly $1.6 trillion higher than prior to the incipience of QE3, including $800 billion MBS and $790 billion in Treasuries.

Set to head the brunt of tapering and the eventual unwinding of the bloated Federal Reserve Bank's balance sheet is incoming Chairman Janet Yellen. A bit more dovish than Bernanke, she has consistently reiterated the point that supporting the recovery today is the best path to more conventional monetary policy in the long-run. A key factor that Bernanke and Yellen highlight in supporting tapering, besides the declining unemployment rate, is how housing appears to have turned the corner. In the face of rising mortgage rates, the rate of home sales has been slowing but still strong. The National Association of Realtors believes 2013 to be the best year since 2006 on a transaction basis. However, as both new-home sales and building permits are nearing a 5-year highs, pending and existing home sales have shown some recent quarterly softness. All in all, yearly strength has translated to approximately a low double digit appreciation in real estate values.

In the context of the recent moderate economic growth, the US appears poised for a robust 2014, yet the Fed is not overlooking the lingering low inflation across the US and other developed countries. The Fed anticipates inflation normalizing closer to 2 percent during 2014, but presently, both US PPI and CPI are trending around 1 percent. There is a fine line that the central bank intends to walk between facilitating economic acceleration and providing accommodative monetary policy for too long. Avoiding deflation is vital. However, there should be sufficient inflation and positive economic data to continue justifying tapering throughout 2014. The federal funds rate will continue to remain at the zero bound after tapering. Yellen is not Bernanke. One of her key works—Optimal Control—provides support for above trend inflation in order to restore economic prosperity. As a result, further tapering is inevitable but the present slack in the economy coupled with minimal inflation sends a clear, dovish signal for the medium-term of Yellen's tenure as Federal Reserve Chairman.

EUROZONE

Continuing the trend of global accommodative monetary policy, Mario Draghi of the ECB headed a 25 basis point reduction in the main refinancing rate to 0.25 percent as well as the emergency borrowing rate while maintain the interest paid on bank deposits at zero. Similar to the US, the ECB is suffering from the persistent zero-bound issue, exacerbated by the combination of elevated unemployment and negligible inflation. Inflation in the Eurozone is materially below 1 percent, uncomfortably close to reaching deflation, an outcome Draghi is ardently trying to avoid. GDP is forecasted to expand approximately 1 percent in 2014, so deflation could be a negative catalyst as asset prices decline, consumers become less inclined to purchases goods and services, and firms, especially banks, are forced to deleverage their balance sheets tightening credit throughout the economy. Following S&P's long-term rating cut of the EU, Draghi reiterated his willingness to take any necessary steps to restore confidence through the Eurozone, stating that the ECB is willing to prime banks with as much liquidity as required until mid-2015. If Draghi enacts further monetary easing, growth is positive, and inflation mildly picks up in 2014, the European indices may foster a much needed equity outperformance relative to other developed countries.

Data during the fourth quarter certainly continued to justify an actively dovish ECB. Following Germany's tepid GDP rise during the third quarter—0.3—percent, a slower rate relative to the second quarter, industrial production and durable goods orders declined in the beginning of the fourth quarter. Beginning in November, both German business surveys and consumer confidence showed significant improvement, as consumer confidence hit the highest level since 2007. Sentiment measures may have a lagged effect on economic output, but as both supply and demand gain confidence coupled with looser central bank policy and stronger global growth, the export-driven cornerstone of the Eurozone's economy may have a brighter outlook over the coming quarters. The recent PMI reading of 54 for December appears to confirm this optimism.

Unfortunately, the French economy appears to continue to be plagued by taxes and regulations as economic activity contracted marginally in the third quarter and has demonstrated weak economic indicators throughout the second half of 2013. France has seen investment by non-financial companies decline and the recent PMI of 47 revealed a fairly significant contraction in the manufacturing sector, highlighting the triple-dip recession and failing support for Francois Hollandes. As the second largest Eurozone economy, any virtuous cycle for the union will be partially contingent on France rebounding during 2014.

In contrast, both Spain and Italy continued to improve during the fourth quarter. Both countries 10-year government debenture yield is trading below 4 percent, demonstrating the market's mitigating fear of systemic risk within the larger periphery countries. Spain, in November, was permitted to exit a bank-aid program. The country had accepted 41 billion euros of a 100 billion euro package to stabilize Spanish banks crippled by defaulting loans derived from the property and construction collapse as well as a program to form a pseudo-bank to dispose of property and loans whose values have plunged. External financing had been expensive for Spain—and Italy—but now, demonstrated through the government term structure, the cost has fallen. Italian PMI reading was fairly strong for the quarter, but the country is not out of the woods yet. The Italian inflation rate is lower than the U.S., U.K., and Germany. On the edge of deflation—0.6 percent inflation—this is likely a dovish sign, since the ECB is struggling to prevent deflation. Moreover, the country has one of the highest debt-to-GDP ratios—126 percent—and the only panacea is a return to prosperity coupled with a dose of political stability.

UK

Unlike the US, Eurozone, and Japan, the United Kingdom has not had an issue with deflation during 2013, rather, non-core CPI was above 2 percent and has finally returned to essentially 2 percent, hitting a 4-year low of 2.1 percent in November, maintaining core prices slightly below the inflation target. The BOE maintained the Official Bank Rate at 0.5 percent and held the BOE's target for bond purchases at 375 billion pounds during the quarter. Governor Mark Carney pledged to not withdraw stimulus at least until unemployment declines to 7 percent through the BOE's forward-guidance policy. An assertion that is coming into question faster than most analysts anticipated with the unemployment rate recently dropping to 7.4 percent. Many analysts had initially expected the pound to depreciate under the dovish Mark Carney, but UK economic data has been surprisingly robust throughout the second half of 2013, continuing throughout the fourth quarter. The key language is "at least until" unemployment reaches 7 percent, so even if the threshold is reached toward the back half of 2014—a year prior to expectations—Carney may not immediately begin tightening monetary policy. Still, BOE growth forecasts have been revised up 0.3 percent to 2.8 percent for 2014, providing continued strength for the pound. Interestingly, during the middle of 2013, expectations were for the Fed to lead the developed world into a tighter monetary policy cycle, yet it now appears the UK may join America significantly sooner, hindering some of the dollar's relative strength.

Unambiguously, UK strength demonstrates continued optimism for the global economy in 2014, as Carney asserted, the UK recovery has "finally taken hold." UK services PMI activity index fell below 60 in December but demonstrated solid growth during the quarter. Similarly, after hitting a three year-high in November, the UK factory PMI pulled back slightly but the reading reiterated sturdy growth throughout the quarter. Reinforcing these broad measures is the three-year high of UK business sentiment and the construction gauge's strength.

However, there is growing anxiety regarding the sustainability of the UK real estate market's prolific acceleration. In October, the U.K. house-price index appreciated to the highest level in the past decade on the tailwind of government programs boosting homeownership. As a result, the BOE took action to prevent housing from becoming a bubble through tightening capital requirements on mortgage lending as well as adjusting the bank's Funding for Lending Scheme to exclude stimulus for home loans. Consumption for the quarter remained moderate, as retail sales rose 2 percent year-over-year, anchoring the economy.

CHINA

The Chinese economy itself performed similar to expectations, as the data provided continued evidence of a slight improvement of the GDP growth rate to closer to 8 percent. The trade surplus for November was the widest margin in over four years. Overseas shipments rose 12.7 percent year-over-year. Not only a positive sign for China, but an optimistic indicator of aggregate global growth. As global growth prospects improve in 2014, Chinese economic activity should benefit. Although industrial production has met expectations and the PMI readings throughout the quarter remained slightly above 50, the data shows industrial investment and retail sales realized strong year-over-year growth. The People's Bank of China has been injecting short-term liquidity into the 7-day repo market, causing the interest rate to spike to mid-7 percent. Hopefully, this will not induce a credit crunch similar to the one during June. It is likely that the PBoC is merely trying to control and smooth potential growth volatility.

The most eventful news for China during the quarter came from the November Plenum. President Xi notably announced the Chinese Government's interest in facilitating significant, gradual reforms across both social and financial measures. The President reiterated the value of market reforms, hukuo reform, and the one-child policy. These three factors are vital to enhancing China's long-run growth sustainability. Although China is poised to benefit greatly from its demographic dividends due to the one-child policy implemented in 1980, if the birthrate does not rise above 2 per woman, the economy will eventually endure a top-heavy age demographic, hindering growth similar to Japan. Moreover, President Xi's powers are being strengthened. The outcome may be a more cohesive, less bureaucratic China, which could be beneficial.

JAPAN

The Japanese economy continues to show signs of above trend growth. Although the third quarter demonstrated essentially flat capital expenditures, fostering concerns about money neutrality and the diminishing returns of fiscal and monetary stimulus, businesses appear more confident in the fourth quarter. The ability for Japan to realize a pick-up in capital expenditures is fundamental to the long-run success of Abenomics. The December reading of the Nikkei Survey for planned capital expenditures was 13.1 percent higher year-over-year. This is the largest annual growth for Japanese capital budgeting since fiscal year 2005. A very optimistic signal. Moreover, surveys of companies in the nonmanufacturing sector have expressed healthy budget increases from initial figures earlier in the year. Planned Japanese overseas investments have risen 33 percent for the year and foreign investments are anticipated to account for approximately 40 percent of total capital spending. North America and Europe may see a rise in Japanese foreign investment by 55 and 30 percent respectively. Not only does this portray the increased risk taking that Kuroda has incentivized through his extensive monetary stimulus program, but it also highlights the positive signals for global growth going forward. Both America and Europe are appearing to the Japanese as more enticing options for risk adjusted returns, key economies for 2014.

Using retail sales as an indicator for fourth quarter Japanese consumption, there is evidence for abnormally strong rates of growth. However, this is only likely to continue as a result of consumption patterns changing, leading up to the sales tax increase set for April. The core issue is that Japan is yet to experience corporate profits translating into the higher wages necessary for a virtuous cycle, especially as consumption tax headwinds rise, with an additional increase expected in 2015. Without real income growth, Japan will not achieve the inflation target of 2 percent. The continued deterioration in the value of the yen is certainly providing support, but core prices remain around 1 percent.

As a result, many economists expect further monetary stimulus in 2014 as prices remain subdued. Governor Haruhiko Kuroda's board has already maintained the central bank's pledge to expand the monetary base by 60 trillion to 70 trillion yen annually, but this may prove insufficient. If further monetary stimulus is enacted, Japanese equities will continue to perform strongly. Further fiscal stimulus is already planned for through the government's fourth quarter budgeting. Japan has announced an 18.6 trillion yen stimulus package, with a core 5.5 trillion focusing direct expenditures on social security, defense, and public works in order to stimulate the economy. Yet, all of the deficit spending and monetization of the debt has consequences. As a result, the sales tax is expected to rise in April to 8 percent from 5 percent, and again in 2015 to 10 percent. Shinzo Abe has pledged to half the budget deficit by 2015 and realize a surplus by 2020.

INVESTMENT OVERVIEW[1]

Equities capped off a stellar 2013 with a positive 4Q13. Although to a lesser extent, WIS anticipates 2014 to prove to be another strong year for equities. The expectations for increasingly robust economic growth coupled with US tapering will undoubtedly make the 2014 investment environment more difficult than 2013. Although Janet Yellen will continue tapering, the Society is confident that she will focus on generating above trend growth, potentially at the expense of slightly higher inflation—as optimal control implies—creating an environment conducive to profit growth. Higher interest rates are a negative catalyst for equities. As the relative value between equities, bonds, and money market funds shift as a result of higher interest rates, the broader market may suffer, but the Society expects profit growth expectations to trump interest rate concerns in 2014.

Still, as interest rates rise with the termination of QE3, the lessened need for investors to search for equity income will continue to negatively impact many large cap, dividend yielders in the utilities and telecomm sector. Confidence, net worth, and employment gains should translate to both higher incomes and consumption of discretionary goods relative to indiscretionary. Similarly for firms, optimism, strengthening orders, global growth, years of underinvestment, and the temptation to lock-in the low interest rates may stimulate a pick-up in both capital spending and financial activity, continuing to buoy the industrial and financial sectors. The domestic investment outlook in energy continues to be bright. Highlighted by the recent trade data, energy imports have been declining relative to GDP as well as reflecting increased domestic petroleum and natural gas production. The US is expected to export more oil than OPEC within the next five years as well as benefit significantly from the numerous shale gas basins throughout America, presenting significant amounts of resource opportunities. The basic materials sector appears to have a more opaque outlook. Contingent upon which catalyst has a stronger effect, the performance of the sector will depend on if commodity prices appreciate or depreciate in the face higher interest rates, a stronger dollar, and more robust economic activity.

Unambiguously, the Society is long-term bullish on healthcare and technology. The healthcare sector provides a premium service with nearly inelastic demand. A significant percent of the US population is the rapidly aging baby boom demographic who have a relatively high need for healthcare-related services. Additionally, as healthcare overage grows in America there will undoubtedly be firms that are winners and losers, but the winners may provide exceptional outperformance potential. For these reasons, and others, the sector has been outperforming the broader market for multiple years, resulting in WIS' more hesitant short-term outlook, especially acknowledging the uncertainty regarding the implementation of the Affordable Care Act.

The technology sector provides investment access into the most contemporary innovation at the core of both firm and consumer activity. The continued penetration of cloud technology into the daily functioning of the two aforementioned parties provides promising investment opportunities. However, the Society is concerned that investors have traded many SaaS, PaaS, and IaaS related companies to premium valuations, reflected in their multiples. This aspect generates a more cautious outlook. Yet, WIS views firms who are doing a superior job in fostering a technological ecosystem to maintain strong investment potential. Since Apple originated the concept, Google, Amazon, and Microsoft have recently enhanced their capabilities in providing a holistic technological experience, where all firm or personal needs can be supplied through the company. This sort of business model, if executed properly, can facilitate long-run, stable demand for the provided service.

JOY/CBI

During the quarter, WIS executed 8 transactions. Beginning with Industrials, the Society sold its position in Joy Global and initiated a position in Chicago Bridge and Iron. As a whole, the sector had felt comfortable with the portfolio diversity given macroeconomic trends, but the group looked to generate further energy exposure by moving away from the mining industry and toward the oil and gas industries.

Joy Global is an industry leader boasting both premium services and products, yet the firm's exposure to coal in non-domestic markets will continue to negatively impact the company's earnings as the supply surplus in China and other foreign markets show little evidence of correction in the next three to five years. Energy consumption trends in industrializing markets posit that coal consumption will overtake oil as the dominant global fuel by 2020. However, the short and medium-term outlook is plagued by commodity pricing, energy grid constraints, alternative fuel availability, and environmental regulatory constraints, posing serious threats to the pace of coal's development.

Chicago Bridge & Iron is optimally positioned to take advantage of this massive macro opportunity and is a strong long-term stock offering energy exposure for the industrials portfolio. CBI provides the opportunity to leverage the portfolio's exposure to North American energy production as well as continued global demand for energy and energy-infrastructure production, which is anticipated to realize sustained gains. Specifically, the company's increased domestic exposure coupled with CBI's solid global presence, strong backlogs, and continued new awards and corporate organization all reiterate the firm's potential. The firm demonstrates robust earnings growth and fosters a consistent, double-digit return on invested capital, fueling WIS investment thesis.

The following section contains contributions from Greta Witter, Charles Busch, Bayan Misaghi, Henry Portwood, Will Whitley, Walter Ramsey, and Brendan McGoldrick

VOD/VZ

WIS previously decided to hold Vodafone in January 2013 due to the market's mispricing of the unrealized value derived from the firm's 45 percent stake in Verizon Wireless. Vodafone's stock has returned more than 40 percent since the beginning of 2013, and the company agreed to sell its share in Verizon Wireless to Verizon in September. Following the recent appreciation in Vodafone's stock, the Society now considers the company to be fairly valued. Furthermore, the future of Vodafone without its stake in Verizon Wireless is concerning. Revenue declined 4.2 percent in 2013 due to increased competition and poor macroeconomic conditions, and the company lost market share in 8 of 17 core markets. Vodafone's EBITDA margin also declined, down to 29 percent from 32 percent in 2011. WIS expects Vodafone's weak financial performance to continue as weak macroeconomic conditions across Europe stifle growth. The sale of the Vodafone position, a result of the aforementioned headwinds, provides an opportunity to realize a solid gain on our investment. A distinct sell risk to exiting the Vodafone position is the diminished exposure to emerging markets, which currently account for 30 percent of Vodafone's revenues.

The screening revolved around finding another legacy telecom provider with a comparable dividend and better future growth prospects, which provide Verizon as a viable choice. The company has a track record of solid operating performance and a 4.20 percent dividend yield. In the third quarter, revenue grew 4.4 percent to $30.3 billion, marking the fourth consecutive quarter in which revenue grew more than 4 percent year-over-year. Verizon's EBITDA margin also increased 1.7 percent to 37.3 percent. The wireless segment saw the strongest growth, with service revenue increasing by 8.4 percent and an EBITDA margin of 51.1 percent. Unlike its competitors, which have experienced flat or declining margins, Verizon has actually seen margin expansion in addition to top line growth. WIS believes that Verizon's strong position in the wireless market with Verizon Wireless will allow it to outperform relative to competitors as the telecom industry continues to shift toward wireless services. Verizon currently has the largest, most reliable 4G LTE network that is available to 303 million people in more than 500 markets across the U.S. Additionally, Verizon leads the industry in customer 4G LTE adoption. Due to the lower cost of providing 4G LTE services, rapid customer adoption of 4G LTE has augmented Verizon's high margins. Its Share Everything pricing plan has been more popular with subscribers than similar pricing strategies by its competitors. Now with 100 percent controlling interest in Verizon Wireless, WIS anticipates Verizon's foothold in the domestic wireless market to improve.

DLTR/PII

The Consumer Discretionary Group decided to present a sell of Dollar Tree and a buy of Polaris during 4Q13. Although Dollar Tree will remain a strong company, the Society's investment thesis has largely played out and there are superior opportunities for capital deployment in the sector. Lack of room for growth, market saturation and the current overvalued price support the decision that last quarter was a good time to sell. The initial position in Dollar Tree was initiated near the beginning of the recession. Our buy thesis was that during a period of stagnant economic activity, customers have less discretionary income and are more likely to make purchases at deep discount stores. Over time, the buy rational has proven to be true and the holding appreciated over 250 percent during the period. Now the outlook has changed and WIS wanted to move to a stock that is better positioned in the current environment. Dollar Tree's strong history of growth and the continued potential for global economic disappointment pose potential sell risks, but the improvements in employment and consumer confidence data signal that the deep discount space is becoming relatively less attractive.

The Discretionary Group's screening process narrowed the scope to companies that had attractive investment qualities such as history of high ROE, a market leader with strong barriers to entry and pricing power, and a business model levered to improving discretionary income. Polaris fit the description. A market leader boasting a growing market share. The firm has a history of strong return on equity, staying profitable through the recession. The company maintains an exciting growth projection internationally as well as new domestic brand acquisitions such as Indian Motorcycle. Acknowledging that the equity selection—a higher growth stock—bears new risks, the Society feels confident in Polaris's growth prospects, especially during a period of economic acceleration.

TRP/ARLP

The Energy Industry Group sold TransCanada Corporation, realizing a 23 percent gain on the sale. Uncertainty behind TransCanada's highly controversial Keystone XL pipeline along with the corporation's stagnant growth model provided impetus for the sale. The Keystone XL pipeline's construction has been pushed back several times during the Obama Administration's tenure, from fear of detrimental environmental consequences. Presently, there is no tangible timetable for completion. The Energy Group recognizes the TransCanada is one of the biggest players to operate natural gas transmission services and has unparalleled financial stability in its field, but the sale of TransCanada provides the Energy Group leeway to diversify a portfolio sufficiently exposed to oil and natural gas prices.

Capitalizing on coal prices recently being at a ten-year low and showing signs of a material improvement in domestic production, the Energy Group purchased shares in Alliance Resource Partners, L.P. (ARLP). The Energy Group anticipates the domestic producer should prove a lower risk holding, diversifying the industry's exposure into coal-powered energy. Despite the negative press, the Energy Information Administration in its 2013 International Energy Outlook shows that consumption of coal will increase by over a third by 2040 in the worst case scenario and will nearly double in the best case. Alliance has been one of the only coal companies in recent history to be turning a profit—most of its competitors are operating at losses due to depressed coal prices. Alliance has strategic sales contracts that ensure its profitability for at least the next 18 months and can therefore weather any further volatility in coal prices. Furthermore, Alliance's niche specialization in thermal coal production gives it a cost-advantage in production and has led to an ROE that trumps its peers. Though more stringent regulation could be deleterious to the coal industry in the long run, ARLP has proven resilient in recent history—a time when most coal companies were struggling—and has raised payouts for twenty-one straight quarters.

BBBY/PEP

The fall presentation for the consumer staples team resulted in a buy of PepsiCo, Inc. and a sell of Bed, Bath and Beyond (BBBY). Elevated P/E ratios across the industry and uncertain Federal Reserve policy created a rather difficult buying environment for the sector. In light of recent higher-beta positions initiated, from a broader portfolio perspective, the Staples team considered the fall term presentation to provide an opportunity to initiate a position in a stable, low-beta, true consumer staples stock. PepsiCo, Inc., through its enormous brand strength, steady, successful innovation, and recent productivity changes, is well-positioned in both the beverage and snack industries, and should serve as an additional anchor to the consumer staples portfolio.

The decision to sell BBBY stemmed from poor store experience, limited online sales, shrinking margins, a reliance on coupons to drive sales, and the belief that the company should really be considered more of a discretionary stock. While the team recognizes that Bed Bath & Beyond has had a recent strong performance and remains a solid company, WIS lacks long-term faith in BBBY's product offering and believed that 4Q13 was a good time to exit the position in BBBY for a more traditional consumer staple.

AKAM/MSFT

The technology group's sell rational for Akamai is four fold. The first factor is heightened competition and loss of market share due to competitor growth in the space. Amazon, HP, Microsoft, and Cisco are all well-established corporations that are initiating moves in the industry, potentially detracting from Akamai's market share as well as driving down the prices that Akamai is able to charge. The second factor is one-off items. The most important event that will affect Akamai's growth potential involves a renegotiation of Akamai's largest client. This client generates around 10 percent of all of Akamai's revenue, roughly $100 - $130 million annually. There is justifiable fear that the renegotiation could have a major effect on Akamai's future revenue stream. The third factor is share activity among higher management. There has been a significant amount of share sell-offs and outflow occurring in the company recently by management. Since the beginning of 4Q13, sales of Akamai stock from executives have totaled over $4.3 million where the average entire 4Q13 sales total only $2.3 million. The forth factor is basic intuition. News and rumors regarding a bubbling tech sector and a 2014 market correction foster considerable concern. Akamai is a very cyclical stock. The firm oscillates with the economy as demonstrated by the last 15 years. Although unlikely, if there is an observable slowdown in the economy, then Akamai's stock price would be impacted more significantly relative to peers. Realizing the 123 percent gain, the Society believes that the investment thesis has played out. As a leading company in the cloud services and internet content industry, the equity has performed well, benefiting from Akamai's emergence as an industry leader.

The buy rationale for Microsoft is six fold. The first factor surrounding the decision to initiate a position in Microsoft is a strong history of returning capital to shareholders through dividend and share buybacks. In September, Microsoft announced an increase in its quarterly dividend by 22 percent. Microsoft has raised its dividend by approximately 16 percent every year for the last five years; however, the percentage increase in the dividend was higher than average. Coupled with this generous dividend increase, Microsoft is instating a new $40 billion stock buyback program. Often a signal for diminished growth prospects in a mature company, the Society perceives evidence that MSFT can both continue to expand and return significant value to shareholders. The second factor was strong quarterly earnings. MSFT reported revenue of $18.5 billion for the quarter, up 15.7 percent year-over-year and EPS of $0.62. Despite continued weakness in server and PC shipments for the quarter, Microsoft reported quarterly results above consensus estimates, driven by strength across all operating segments. The third factor is mobile growth. Microsoft is very well positioned to capitalize on the continually growing mobile market. The company just acquired Nokia's smartphone business. Due to the fact that Nokia Lumia 520—a windows phone—is offered at a cheaper price point relative to its competitors—Apple and Google—the phone has been quite successful in countries with lower GDP. Price is the main barrier in developing markets and the price friendly Lumia 520 opens the door to smartphone ownership for many. Nokia is the leading cell phone carrier in Latin America and Western Europe and it alters between number one and two in India. We believe that Microsoft is well positioned to reap significant profits from these areas as smartphones continue to saturate the market in the aforementioned countries and other growth markets. The merger with Nokia was vital to Microsoft's success in international markets.

The fourth factor influencing our buy decision is a division realignment & strategy shift. Microsoft reorganized and realigned their segment structure in July. Rationale for this decision was that the company could become more nimble, transparent, and decisive in all facets of their business. As part of this internal reorganization, the CEO also instilled a new "One Microsoft" strategy for the company. Under the new strategy, Microsoft's goal is to capitalize on a connected family of products. The fifth factor is the growth and expansion of cloud computing. The growth and development of Microsoft's Azure cloud services shows that Microsoft is not only catching-up but positioning itself to become a market leader in cloud computing. Admittedly, Microsoft is trailing Amazon in market share in the cloud space, yet MSFT has gained serious traction in the last year, after making significant, targeted investments in the cloud computing space. The company's Azure cloud service enjoyed triple digit growth in the third quarter. The sixth and final factor surrounding our buy of Microsoft is growth in the firms Hardware, Devices & Services businesses. Microsoft has always been known for its software, whereas Apple has always been known for its hardware. Recently, the discrepancy between the hardware of the two companies has been tightened and Apple is no longer as dominant in hardware as it has been in the past. In the last year or so, Microsoft has caught serious heat for unveiling lousy hardware devices, such as surface tablet and smartphones. Microsoft is well aware of its failure in this category and therefore has decided to focus more intensely on revamping the hardware division to enhance its competitive edge. The company is quite capable of producing high quality hardware. Despite the tablet's software troubles, it is a desirable device. Tech analysts are excited about the releases of the Surface Pro 2 and the Xbox One. Even though the Xbox accounts for a marginal amount of the company's revenue, it is a market leader in the gaming industry and reinforces the fact that Microsoft is capable of being a market leader in a diverse array of industries and product lines.

MR/DVA

The sale of Mindray Medical came with great deliberation. The equity has been a strong component of WIS's Healthcare portfolio over the past several years, and WIS has enjoyed the holdings significant appreciation during the investment tenure. However, Mindray's dominance over the Chinese medical device market appears to be gradually ending. In particular, the firm is facing heightened competition in China from multinational peers. Moreover, recent attempts to boost sales in North America have proven futile, especially as Mindray's attempts to better penetrate the higher-end of the United States medical device market have been ineffective. The aforementioned uncertainties coupled with the uncertainty in U.S. and China healthcare reform have caused Mindray's management to temper expectations regarding sales growth in the near future, reinforcing the sell rational.

The decision to purchase DaVita was supported broadly by the clear trend in America toward both increased longevity and growing rates of diabetes, fueling the prediction for 6 percent annual increases in global growth of patients needing kidney dialysis. Currently, greater than 10 percent of people aged 20 years or older in the United States have Chronic Kidney Disease. The US represents the single largest regional market worldwide for Kidney Dialysis, and the United States market maintains an unusually high prevalence of renal failure cases, a phenomenon frequently attributed to dietary habits. The 65+ age group in the United States is rapidly expanding. These elderly citizens have the highest risk for end stage renal disease. Hence, the demographic shifts in America, due to the aging Baby Boomers, are indicative of the likelihood for robust demand for DVA's services.

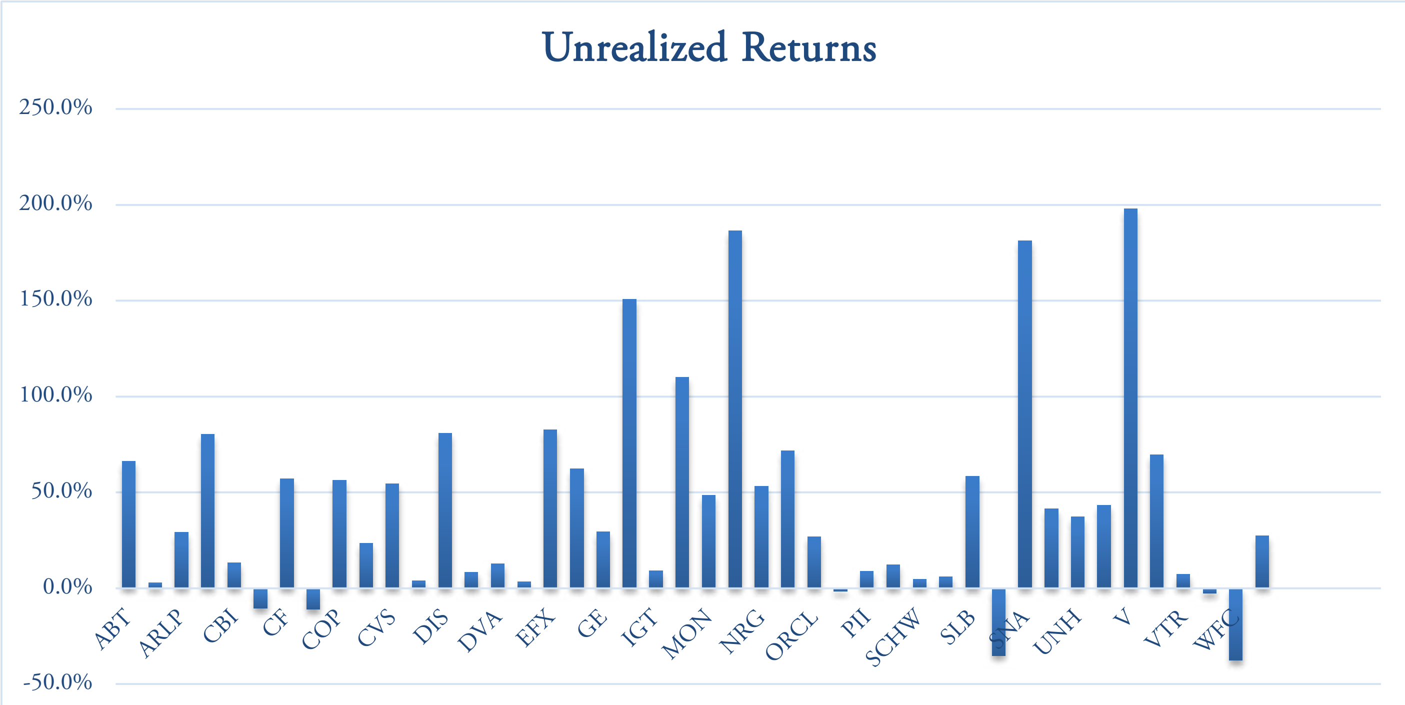
DaVita competes with Fresenius Medical Care as the biggest providers of renal care in the United States and worldwide. Together, the two firms account for 70 percent of the U.S. Dialysis market. Both companies enjoy tremendous scale advantages over smaller competitors. This favorable position situates DVA well to realize the benefits from the anticipated growth in the global market for kidney dialysis equipment and supplies. Additionally, increasing health awareness throughout the population, government support, and the continued adoption of portable dialysis products are positive indicators for the stock. Lastly, as global healthcare spending in key growth markets picks up—such as India and China—and the Dialysis treatments continue to demonstrated effectiveness, DVA will be able to leverage the inelastic demand for the firm's provided service, continuing to create value for shareholders.

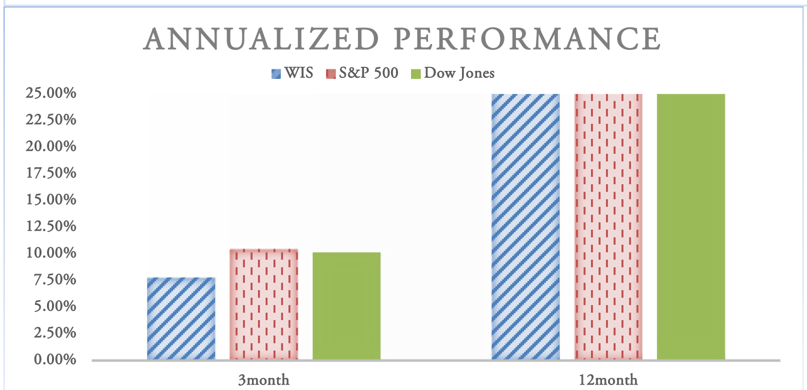
BNS/SCHW

The financials group gave the final presentation of the semester. The industry group looked to further diversify its sector holdings by both lessening the exposure to the banking sector and adding exposure to asset management services. The portfolio's lack of diversification into asset management and alternative asset management firms, whose businesses can actively and nimbly navigate through a rising rate environment, forfeited potential exposure for WIS into significant growth opportunities. WIS chose to sell BNS as a result of the firm's consistently disappointing foreign growth strategy. The Society preferred Wells Fargo's as the portfolio's bank holding, anticipating that the domestic commercial and investment banking opportunities will facilitate long-term growth and equity appreciation.

The core screening revolved around adding a company that directly diversified the group's holdings, protected against interest rate changes, and a company that maintained significant competitive advantages within a growing market. The Society considers Charles Schwab to be one of the few companies that will benefit from a rising interest rate environment. Schwab is one of the largest providers of money market funds. Over the past few years, SCHW has not been charging fees on these funds due to the unconventionally low-rate environment. As interest-rates begin their slow, controlled ascent through tapering—and eventually the Fed Funds Rate exiting the zero bound—SCHW will be able to begin generating increased income from its money market funds, better augmenting the business model. On the institutional side, for a company of independent, registered investment advisors, Schwab has the best technological infrastructure. The advanced and simple platform enables RIAs to spend the bulk of their time fostering relationships with clients, while minimizing time focusing on trade execution. Throughout 2013, the firm continued to find ways to mitigate the historically costly and time consuming back office activities, and the Society expects further innovation in 2014.

Additional Figures





(%)	Prior 3 Months	Prior 12 Months
WIS	7.79	31.03
S&P 500	10.46	32.13
DOW JONES	10.15	29.37

Top Ten Holdings

	TICKER	MARKET VALUE
1	MEOH	$ 82,936.00
2	GILD	$ 82,610.00
3	BUD	$ 74,522.00
4	SLB	$ 73,980.31
5	IGT	$ 72,276.80
6	QCOM	$ 71,205.75
7	COP	$ 67,117.50
8	MON	$ 67,016.25
9	SJM	$ 66,731.28
10	PII	$ 65,392.36
PERCENT OF PORTFOLIO		35.99%

Current WIS Holdings

4th Quarter appreciation/depreciation and market value of holdings. (*) indicates 2013 purchases.

TICKER	MARKET VALUE	QUARTERLY APPRECIATION/ DEPRECIATION	% OF PORTFOLIO
Basic Materials			
CF	$7,923.36	10.46%	0.39%
MEOH	$82,936.00	14.67%	4.12%
MON	$67,016.25	10.49%	3.33%
OMG	$40,051.00	6.87%	1.99%
SLW	$20,250.57	-16.22%	1.01%
TOTAL	$218,177.18		10.85%
Consumer Discretionary			
COH	$26,942.40	3.28%	1.34%
DIS	$36,290.00	17.85%	1.80%
IGT	$72,276.80	-5.91%	3.59%
PII*	$65,392.36	11.46%	3.25%
TJX	$43,782.51	12.24%	2.18%
TOTAL	$244,684.07		12.17%
Consumer staples			
BUD	$74,522.00	7.87%	3.71%
CVS	$54,178.49	24.38%	2.69%
DANOY	$50,820.00	-4.22%	2.53%
PEP*	$19,490.90	3.91%	0.97%
SJM	$66,731.28	-1.70%	3.32%
TOTAL	$265,742.67		13.21%
Energy			
ARLP*	$53,130.00	2.34%	0.90%
CCJ	$18,173.75	13.13%	3.34%
COP	$67,117.50	0.67%	1.87%
DVN	$37,555.09	5.58%	3.68%
SLB	$73,980.31	1.19%	3.68%
TOTAL	$249,956.65		12.43%
Financials			
EFX	$51,817.50	15.40%	2.58%
SCHW*	$29,900.00	21.61%	2.58%
V	$22,268.00	15.25%	1.11%
VTR	$42,960.00	-9.24%	2.14%
WFC	$48,532.60	9.42%	2.41%
TOTAL	$195,478.10		9.72%
Healthcare			
ABT	$32,580.50	13.47%	1.62%
DVA*	$63,370.00	9.69%	3.24%
ENSG	$65,076.90	6.19%	4.11%
GILD	$82,610.00	19.59%	4.11%
UNH	$48,192.00	3.75%	2.40%
TOTAL	$291,829.40		14.51%
Industrials			
CBI*	$22,445.10	18.77%	1.70%
GE	$34,140.54	15.97%	1.70%
SNA	$28,146.64	8.70%	1.40%
UPS	$40,455.80	14.47%	2.01%
WM	$45,991.75	7.91%	2.29%
TOTAL	$171,179.83		8.51%
technology			
CPSI	$21,032.17	4.48%	1.05%
MSFT*	$64,719.30	11.41%	1.05%
ORCL	$38,260.00	14.21%	1.90%
QCOM	$71,205.75	10.02%	3.54%
VCLK	$18,696.00	7.40%	0.93%
TOTAL	$213,913.22		10.64%
Utilities & Telecom			
AMT	$24,824.02	7.78%	1.23%
DUK	$55,208.00	2.59%	2.75%
NRG	$34,464.00	4.63%	1.71%
VZ	$36,904.14	4.58%	1.83%
TOTAL	$151,400.16		7.53%

Totals

CASH	$8,821.28	0.44%
TOTAL	$2,011,182.56	
EQUITIES	$2,002,361.28	

David Fishman	Max Farrington	Trey Hatcher
Executive Director	Associate Director	Associate Director
fishmand14@mail.wlu.edu	farringtonm14@mail.wlu.ed	hatchert14@mail.wlu.edu