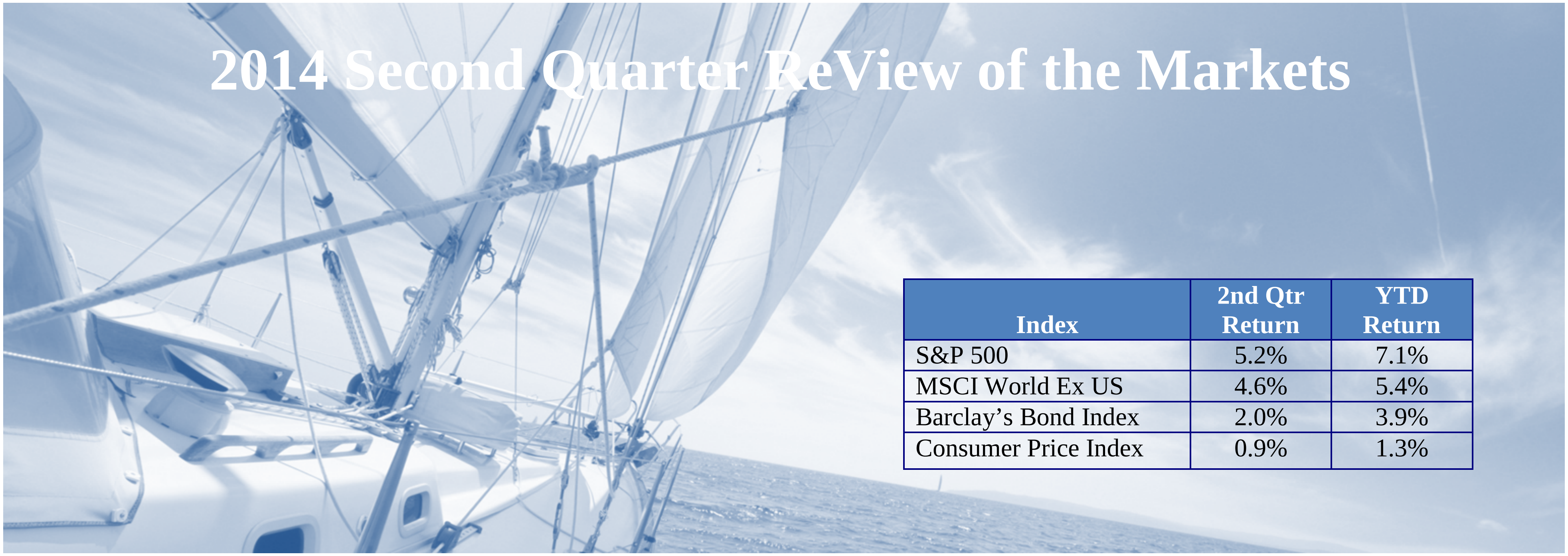
2014 Second Quarter ReView of the Markets



Index	2nd Qtr Return	YTD Return
S&P 500	5.2%	7.1%
MSCI World Ex US	4.6%	5.4%
Barclay’s Bond Index	2.0%	3.9%
Consumer Price Index	0.9%	1.3%

Investment Commentary

After a slow start to 2014, equity markets picked up steam during the second quarter. Domestic equity markets led the charge with the S&P 500 up 5.2%. During the quarter, the U.S. government revised its estimate of first quarter GDP growth downward from -1% to -2.9%. However, equity markets were largely unaffected by the announcement of negative GDP growth and finished the quarter higher. This is a good example of an expectation that was “priced into the market” prior to its release.

International markets had a strong quarter as well, returning 4.6% – much stronger than the first three months of the year. Despite increasing political tension, expansionary policy from central banks led to an increased appetite for risk and higher equity markets.

Fixed income continued to enjoy the benefit of falling interest rates as the Barclays Aggregate returned 2.0% for the second quarter. The yield on the 10 year U.S. Treasury note ended 2013 at 3.0%, fell to 2.7% by the end of the first quarter, and continued downward to 2.5% by the end of the second quarter. Yields on riskier bonds continue to be low relative to higher quality bonds, reflecting optimism about the financial condition of these lower quality borrowers.

Economic Outlook

Since the economic recovery began in 2009, we have anticipated GDP growth of around 2% – lower than what was broadly projected. This has been correct and we remain confident in our forecast of approximately 2% growth for the near future.

In order to meet demand from a growing economy, companies are hiring more workers, which will lead to increased personal spending as the unemployment rate falls. Increases in hiring generally lead to rising wages and this could potentially lead to a corresponding increase in inflation. While inflation is always an issue at the forefront of investors' minds, we maintain the belief that a small amount of inflation is healthy for the economy. Moreover, at this stage, we believe that concerns about high inflation or hyperinflation are without merit.

While interest rates continue to defy investor's expectations by remaining near historic lows, we believe interest rates will rise over the longer term, albeit not to historically "normal" levels, a sentiment echoed by former Federal Reserve Chairman Bernanke. However, given the generally mild inflation and the fact that the Fed does not plan to end the Quantitative Easing program until later this year, we believe that rates will remain reasonably stable for the next several months.

Investment Strategy

Equity markets have delivered stronger results in 2014 than we anticipated; however, our clients have fully participated in the increase to the degree that equities are appropriate given their risk profile. We believe that overall market valuations are justified based on earnings and prices relative to other asset classes. Although we have been pleasantly surprised by the lack of volatility this year, it is statistically probable that we will see a moderate draw down in equity markets at some point. However, because we believe the economy and corporate profits will continue to grow, we do not anticipate meaningful decreases to our equity allocation across risk profiles.

Unemployment in Europe is falling meaningfully which should be an important growth driver for European economies. However, the fundamentals are not yet compelling enough for us to dramatically increase our allocation to international equities versus domestic equities. Emerging markets (EM) have rallied so far this year, coming off of poor returns in 2013. While our exposure to EM continues to be low, we are carefully monitoring conditions in these heavily bifurcated economies, and we will increase our allocation within this asset class when we believe the return prospects relative to the risk levels become more attractive.

With respect to fixed income, we maintain that rates are not yet high enough to assume the interest rate risk of investing in longer dated bonds. However, as interest rates rise, we will reevaluate their risk/return profile. It is important to remember that reducing volatility is the primary role of fixed income in a client's portfolio. Therefore, we do not think it is prudent to take unnecessary risk in this asset class. For those risk profiles that require additional risk reducers, we continue to utilize alternative investments, including long/short and market neutral strategies. These strategies are equity-based, but aim to provide limited exposure to equity market's downside while still providing some participation in the upside. In addition, fixed income alternatives, such as floating rate loans and absolute return funds, provide less interest rate sensitive alternatives within the credit markets. Insofar as we utilize "bond like equities" we do so based on the economic fundamentals of the underlying asset class, not for their current income.

As always, feel free to contact us if you would like to discuss our investment strategy. We welcome the opportunity to further your understanding of your portfolio and its impact on your financial independence.