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3rd Quarter 2014 Commentary | *October 2014*

Please Enjoy the Wait: September was particularly rocky for investors with the S&P 500 recording a 1.6% decline for the month, but still boasting a 6.7% gain year-to-date. As we contemplate that our current bull market began in 2009, we continue to wait for the correction that will eventually occur. However, there is still room to run as our economy continues to improve.

What Does the Crystal Ball Predict for the 4th Quarter?

Investors don't expect the Federal Reserve to change course. For the first time in a long time, rising interest rates in the year ahead appear to be a certainty. Stock markets are now starting to price in the first rate hike, widely expected to arrive sometime in June 2015. Implied volatility on the S&P 500 as measured by the CBOE's Volatility Index (VIX) has been trending higher over the past three months and gained 34% in September, bouncing off of very low levels. Most analysts are predicting higher volatility in the weeks and months to come. However, Russ Koesterich, Blackrock's global chief investment strategist, strikes a conciliatory tone on rising volatility, pointing out that the VIX is still below historical averages and "as investors begin to prepare for a first rate hike, Wall Street's fear gauge should continue to normalize."

Bob Doll, chief equity strategist at Nuveen Asset Management believes that the easy gains are over, but stocks are still going higher. They'll just do so in a more moderate and bumpier fashion at this point in the economic cycle. "The path will be irregularly higher." A lot of people think stock runs are over once the Fed starts raising rates (again, expected for June 2015). Not so, says Doll. Historically, stocks go up 6% in the first 12 months after the central bank starts raising interest rates, says Doll. "The Fed has been our best friend and eventually it will be our worst enemy. But there is a long path to worst enemy from best friend. That's a multiyear process," he says. Doll also suggests that we don't get spooked by arguments that stocks now look too expensive. Despite the huge gains in recent years, they still aren't "ridiculously valued," says Doll. The S&P 500 forward price-to-earnings ratio of around 17 is just a point above the long-term average. That's not bad, considering that P/E multiples should probably be a few points higher given low interest rates and low inflation. Doll predicts that third-quarter earnings growth will come in just fine, supporting current valuations.

According to Ed Yardeni (Yardeni Research), the only thing that can kill a bull market is a recession and there is no recession on the horizon. Karyn Cavanaugh, senior market strategist at Voya Investment Management added "The economy is strong enough to function on its own and earnings are poised to go higher. With interest rates staying low well into 2015 and valuations at reasonable levels, we see stock prices going higher."

Ultimately, how the markets play themselves out over the next three months and into the next year is anyone's guess. But nearly all strategists agree that the road to the end of the year will be bumpy. So what do we do? Continue to hold sufficient cash reserves and maintain our asset allocation strategies – which include those boring bond funds as a secondary line of defense.

Sept 30, 2014 Benchmark Returns

2014	**3rd Quarter**
Large-Cap US Indices	
Dow Jones Industrial	1.87%
Standard & Poor's 500	0.61%
NASDAQ Composite	1.93%
Russell 1000 Growth	1.49%
Russell 1000 Value	-0.19%
Small-Cap Indices	
Russell 2000 Growth	-6.13%
Russell 2000 Value	-8.58%
Large Cap International Indices	
MSCI EAFE (Local Currency)	0.38%
MSCI EAFE (US Currency)	-5.88%
Fixed Income Indices	
Barclay's US Aggregate Bond	0.17%
Citigroup World Govt. Bond	-5.38%
Real Estate Indices	
Dow Jones US Select REIT	-3.00%

** Index performance is provided as a benchmark only. The performance of your individual portfolio will vary from that of any one index. Past performance of an index is never a guarantee of future results.*

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Investment News

As most of you know, Pimco Total Return Institutional (PTTRX) is one of our 'preferred' bond fund holdings. Many of you, including myself, hold this fund within our investment portfolios. As widely reported in the news, Bill Gross (age 70), the lead manager for this fund, suddenly (and unexpectedly) left Pimco on Friday, September 26th, to join the Janus mutual fund family. While Mr. Gross is certainly a figurehead and renowned expert on bonds, he was not solely responsible for the ongoing management of PTTRX. He oversaw and provided guidance to a team of investment analysts. Pimco has announced that PTTRX will now be led by a trio of expert bond fund managers from within the Pimco family. These three managers each enjoy a successful track record for the three funds they separately manage. Since each of the three funds focus on a different bond asset class, this will bring a variety of leadership and expertise to the PTTRX management table. We expect heightened volatility within this fund in the short term due to this change in management. However, we expect values to normalize in the near term. As is our ongoing protocol for all of our recommended investments, we will continue to monitor PTTRX and advise if we recommend a change in strategy.

Enclosed Investment Reports

3rd Quarter 2014 Reporting:

- *Aggregate Overview; Current Value, Asset Allocation and Performance; summarized by Portfolio and Combined Portfolios, as applicable*
- *Holdings Analysis by Account; summarized by Asset, Account and Asset Allocation*
- *Statement of Fees* for the 4th Quarter 2014 (based on 09/30/14 values)
- *Disclosure Statement*

Please remember that this investment reporting is for informational purposes only and you should also refer to the investment statements you receive from your brokerage custodian.

As always, we appreciate your continued confidence and trust. Should you have any questions or concerns, please contact us.

Best regards,

Patricia C Patterson

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