Market Commentary

1st Quarter 2014

Economic Summary

From the late 70s to the present, the Federal Reserve Chairmen have gone from an extreme inflation-fighting hawk (Paul Volker) to a mild-mannered inflation hawk (Alan Greenspan) to a professional PhD inflation-accepter (helicopter Ben Bernanke) to the current inflation-promoting enthusiast (Janet Yellen). She seems to be saying, "Inflation – bring it on, it will be good for you, and not hurt a bit."

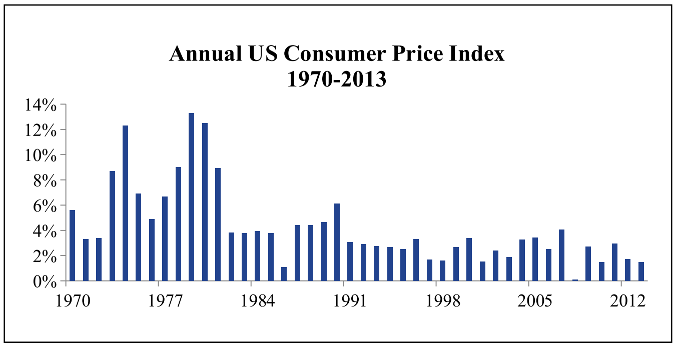

Chart 1

SOURCE: MELLON ANALYTICAL SOLUTIONS, APRIL 2014

Inflation is represented by the U.S. Consumer Price Index, a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living. Indexes do not incur fees and it is not possible to invest directly in an index.

The great monetarist economist Milton Freidman stated that deflation would never occur in the U.S.A. The Fed would never let it happen. And it hasn't, but disinflation (not actual deflation) certainly has occurred from Paul Volker's day of 14% inflation annually to near 1% now, as measured by the CPI (CHART 1).

The economic impact of the Fed's latest experiment in monetary policy of "tapering" down the purchases of U.S. Treasury securities remains to be seen. We're glad to see the Fed reducing its manipulation of the capital markets, which if continued, should allow free markets to function based on more normal supply and demand forces. Policy directives out of Washington have been questionably successful at best.

After four years of Fed Quantitative Easing and over five years of ineffective and constrictive fiscal policies driven by an ideological and incompetent administration, market participants are ready for some normalcy. The Great Recession supposedly ended in 2009 after the financial crisis passed. Many (especially the unemployed) would argue that the recession is ongoing. Only the investor class has benefited (in spades, no less). Whether

Past performance does not guarantee future results.

Economic Summary (CONTINUED)

that will continue is an open question. With the stock market up 25–30% by most indices last year, we believe a more cautious attitude should be adopted as the S&P 500 continues to hit new highs (CHART 2).

We are not surprised by the modest performance in equities through the first quarter of 2014, given the returns from most equity indices in 2013. The returns in 2014 are more consistent with the tepid growth of the economy (CHART 3).

Economic Outlook

It looks as though 2014 will be another year of modest economic growth. Real GDP grew 1.9% in 2013, down from 2.8% growth in 2012. Housing and healthcare, which account for about 40% of the economy, are important elements of a stronger recovery. The Affordable Care Act (ACA) is creating significant financial uncertainty for health care organizations, which is a constraining factor. The housing recovery is underway, thanks in part to record low interest rates, a better supply and demand balance, and a stock market recovery. Real GDP growth might reach 3% in 2014. We are expecting slow growth for the foreseeable future.

Fixed Income Outlook

The 10-year treasury rate was range-bound between 2.55% and 3.00% during the first quarter of 2014. Still, we are mindful of the inevitable long-term trend of rising interest rates, especially as the Fed exits its Quantitative Easing experiment and economic growth accelerates. Therefore, we maintain our strategy of short duration fixed income securities.

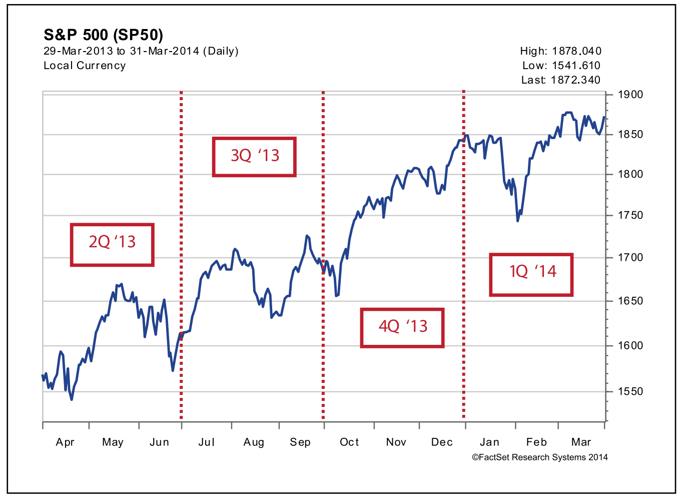

Chart 2

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS", APRIL 1, 2014

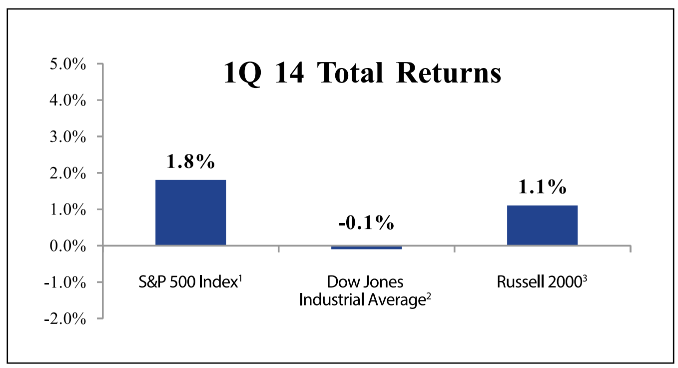

Chart 3

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[1] The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general.
[2] The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.
[3] The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index. You cannot invest directly in an index.

Economic Summary (CONTINUED)

Equity Outlook

We believe earnings growth will be the primary source for equity appreciation during 2014, with little room for further multiple expansion. Corporate profits may increase by between 5% and 7% this year, fueled mostly by the few remaining opportunities to reduce corporate costs.

As a result, we have adopted a more cautious strategy in portfolios, selling securities that appear fully priced, given their underlying fundamentals, and adding positions where the price/value relationship is more favorable.