Market Commentary

3RD QUARTER 2014

Economic Summary

The U.S. economy showed marked improvement during the second quarter with reported growth in GDP of +4.6%. This was up from a -2.1% decline in the first quarter. (We're estimating 2.0% real growth for the entire year.) The U.S. economy continues to post modest gains while the rest of the world seems to be muddling along as best it can. The global economic malaise has central banks around the world continuing their monetary efforts to jump start economic growth. Whether or not those actions achieve their intended purpose or are impairing the prospects for long-term economic growth remains to be seen.

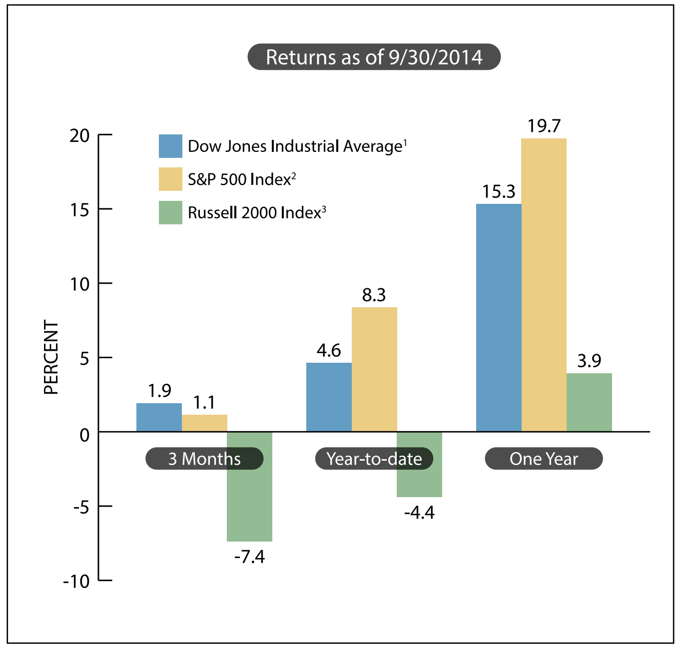

Chart 1

Equity averages were mixed during the third quarter with large-caps outperforming small-caps. Investors were confronted with considerable geopolitical headwinds during the quarter; ISIS sweeping across much of the Middle East, ongoing problems in the Ukraine and fears of the global spread of Ebola just to name a few.

While these factors have the potential to impact short-term equity markets, we continue to focus on the long-term prospects of individual stocks. As stated in the past, we remain disciplined in our stock selection strategy, which focuses on paying reasonable prices for shares of exceptional companies with durable competitive advantages. In response to higher equity prices, we have raised our cash position in recent quarters. With the fourth quarter off to a rocky start, this provides some protection against declining equity prices and allows us to capitalize on the opportunities these sorts of markets inevitably present.

Past performance does not guarantee future results. You cannot invest directly in an index.

[1] The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

[2] 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.

[3] The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index.

Economic Summary (CONTINUED)

It is hard to believe we are only a few weeks away from the mid-term elections. There is great hope that Republicans will take over the Senate. If they do, we can expect progress on a number of legislative fronts. The Keystone XL Pipeline, a repeal of the medical device tax and an increase in defense spending would all be much more likely. Potential Supreme Court appointments or other nominations that need Senate confirmation would be more moderate with Republicans in control. If Democrats retain the Senate, the current gridlock will continue. It is worth noting that historically, the twelve months following a midterm election have been very good for stocks, so we're not rip-roaring bears. (CHART 2)

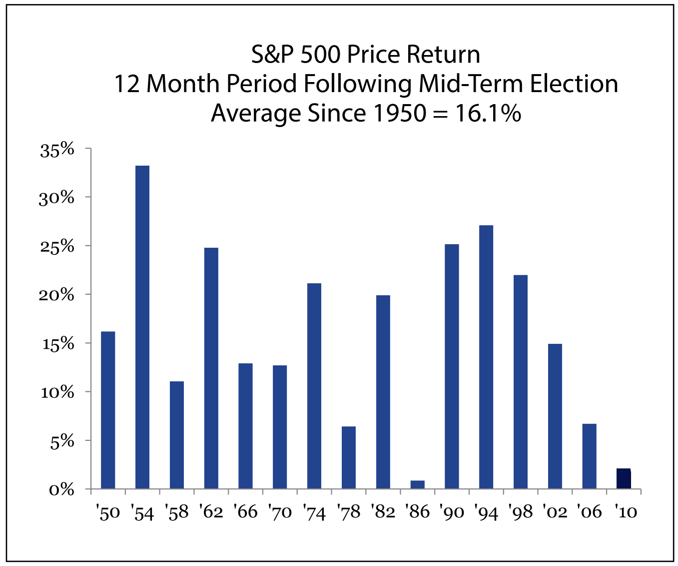

Chart 2

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

Domestic Issues and Foreign Affairs

To say the Obama administration has had a few problems is an understatement. The rollout of Obamacare, Lois Lerner's lost emails and the IRS targeting of conservative groups, and the VA hospital system's dysfunction are three of the most recent. Illegal immigration along with the incompetence and poor judgment of the Secret Service are two others. These domestic issues are bad enough, but internationally, even bigger problems loom, including ISIS, Ukraine, Vladimir Putin and the never-ending Middle East crisis. Clearly, there is a vacuum of U.S. leadership domestically and on the world stage. It is no surprise that Obama's approval rating continues to sink. The problem extends beyond the executive branch into the legislative and judicial branches, too. The American people's trust in government is the lowest it has been in over 40 years.

The Federal Reserve's tapering is set to conclude at the end of October. Fed rate tightening will commence some time thereafter. As the dollar has strengthened recently, commodities prices have generally declined, helping to hold inflation in check. We believe this phenomenon to be temporary in nature. When inflation does rear its ugly head, it may

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Economic Summary (CONTINUED)

prove difficult for the Fed to contain it. Regardless, well-selected equities can be a good defense against inflation. Companies that pay a rising stream of dividends provide further protection. Dividends paid by companies have historically grown at a much greater rate than inflation. (CHART 3)

Even though dividends have been rising, profit margins at record high levels have produced dividend payout ratios near record lows (CHART 4). So, strong, well-capitalized and profitable firms still have the ability to increase their dividends, even without much earnings growth. Many investors fail to realize the importance of dividends to their total investment return. CHART 5 on the following page shows dividends matter greatly.

Fixed Income Markets

The 10-year U.S. Treasury opened and closed the second quarter around 2.5%. The Fed is currently on track to end their third quantitative easing program (QE3) this month and may begin raising rates sometime in 2015. We continue to carefully control interest rate risk as we believe interest rates will rise and not necessarily on the Fed's schedule. Interest rates have been so low for so long, many investors have gone out on the yield curve (more interest rate risk) and down the credit scale (more credit risk) in search of additional yield. This activity, sometimes described as "reaching for yield," usually ends poorly. In this environment, we continue to favor short-maturity, high quality bonds as investors, in our view, are not being adequately compensated for the additional interest rate and credit risk they are being asked to assume.

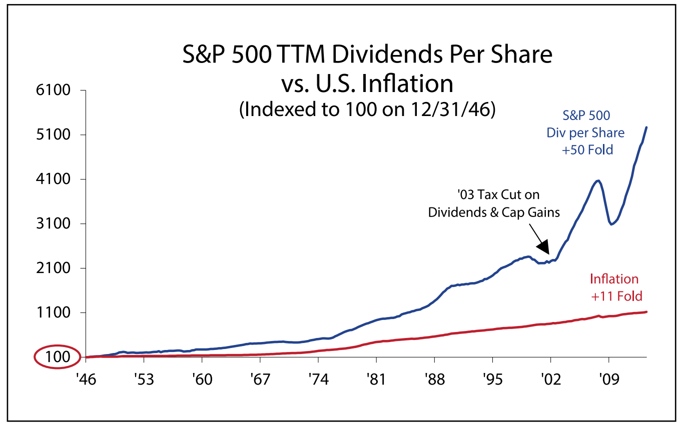

Chart 3

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

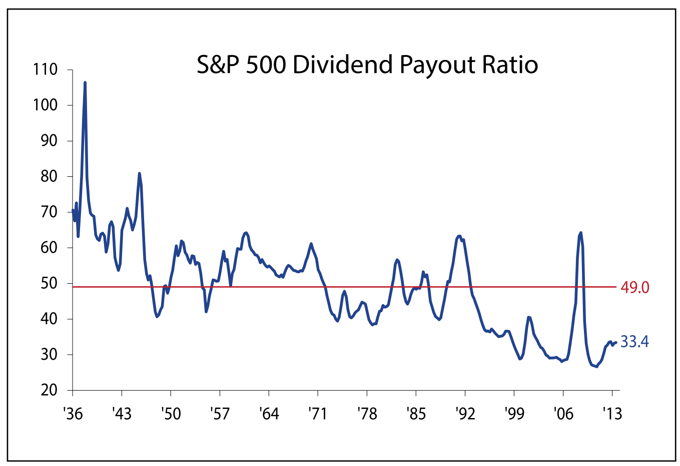

Chart 4

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

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What's a long-term investor to do now?

In summary, stock prices have risen dramatically for more than 5 years, driven in large part by the Fed's easy-money policies. With valuations stretched, it is time to be more cautious. As we realize gains and build up cash reserves, we continue to look for attractively-priced stocks of fine companies that have the ability to grow their revenues, earnings and dividends. In our opinion, these types of world-class companies will make the best long-term investments.

We believe equity risks are elevated with stock valuations being generally high, a situation that has historically led to lower future returns than might be expected today. Therefore, we are continuing to selectively nail down profits by selling fully-priced issues in our portfolios. This is not a panic situation and we're not drastically changing our portfolios. We are taking some profits as we carefully pursue other equity opportunities based on valuations. Our long-term outlook remains bullish.

Dividend Contribution to Total Return

	Price Pct. Change	Dividend Contribution	Total Return	Dividends Pct of TR
1930s	-41.9%	56.0%	14.1%	NA
1940s	34.8%	100.3%	135.0%	74.3%
1950s	256.7%	180.0%	436.7%	41.2%
1960s	53.7%	54.2%	107.9%	50.2%
1970s	17.2%	59.1%	76.4%	77.4%
1980s	227.4%	143.1%	370.5%	38.6%
1990s	315.7%	116.7%	432.4%	27.0%
2000s	-24.1%	15.0%	-9.1%	NA
Avg.	104.9%	90.6%	195.5%	51.5%

Chart 5

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

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