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QUARTERLY MARKET REVIEW: JANUARY-MARCH 2014

Dear Clients,

At the end of every quarter, we here at Financial Concepts, enjoy the opportunity to provide you with our market commentary as a formal recap of current events in an ever changing world. It is also our pleasure to share relevant topics with you in a clear and concise manner as they develop and evolve over time.

With this in mind, we made several year-end adjustments to our Model Portfolios in December of 2013. While we have contemplated several additional changes, we have chosen to hold fast with our current allocations for the first quarter of 2014. We do this because while last year was a year in which risk taking was rewarded, this year diversification has added to returns. A well balanced portfolio has the potential to outperform the equity markets.

In addition, while several sectors that were in favor last year (most notably Small-caps) are now out of favor, so too are several sectors in favor that were out of favor last year (such as Traditional Bonds, non-correlated Satellite Strategies and Domestic Real Estate). In an effort not to overreact to the robust market performance of last year, we have remained diligent, but have not instituted changes to our models.

The Markets

Profit-taking from 2013's strong run as well as currency and credit problems in several emerging markets threatened to derail the stock market as 2014 began. Those factors, combined with the prospect of less support from the Federal Reserve, a slowing Chinese economy, and renewed Cold War tensions, led to a volatile quarter for equities. After a dismal January, equities regained some strength once Congress avoided a fight over raising the debt ceiling limit.

By early March the S&P 500 had hit a new all-time closing high; on the bull market's fifth anniversary, the S&P was only a couple of hundred points away from having tripled since its March 2009 low. At that point the NASDAQ was up more than 4% for 2014, well ahead of the S&P 500 for the year and more than 5 percentage points ahead of the Dow industrials, which spent much of the quarter in negative territory.

However, the rest of March was a great equalizer, narrowing the gaps between the various indices. A slump in tech and biotech stocks handed the NASDAQ its worst month since October 2012 and cut its year-to-date gain to half a percent. The small caps of the Russell 2000 also suffered in late March. However, the S&P 500 proved more resilient, managing to hang on to its 2014 gains.

The international uncertainty lured back money that had been invested overseas in recent years and helped counterbalance some of the fear about Fed monetary policy. Money that had been pulled from bond mutual funds during 2013's second half began to flow back in during the first quarter of 2014,* helping to cut the benchmark 10-year Treasury yield almost a third of a percent as prices rose.

After last fall's slide, gold rallied from nearly $1,200 an ounce to almost $1,380 before the late-March swoon took it down to just under $1,300. The price of oil gained a couple of dollars a barrel in Q1, ending at just over $100 a barrel, while the dollar remained little changed.

Market/Index	2013 Close	As of 3/31	Month Change	Quarter Change	YTD Change
DJIA	16576.66	16457.66	.83%	-.72%	-.72%
NASDAQ	4176.59	4198.99	-2.53%	.54%	.54%
S&P 500	1848.36	1872.34	.69%	1.30%	1.30%
Russell 2000	1163.64	1173.04	-.84%	.81%	.81%
Global Dow	2484.10	2502.78	.73%	.75%	.75%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	3.04%	2.73%	7%	-31 bps	-31 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Quarterly Economic Perspective

U.S. economic growth slowed in the fourth quarter of 2013, according to the Bureau of Economic Analysis. The 2.6% annualized increase in Q4 gross domestic product was lower than Q3's 4.1% gain. That helped cut inflation-adjusted GDP for all of 2013 to 1.9%, compared to 2012's 2.8%. Meanwhile, after-tax corporate profits were up 2% for the quarter--slightly less than in Q3--and a 3.7% drop in corporate taxes last year left corporate after-tax profits up 6.9% for all of 2013.

Unemployment barely budged during Q1, remaining not far above the 6.5% unemployment rate that the Fed had targeted as a potential threshold for raising short-term interest rates. However, at its March meeting--the first under new chair Janet Yellen--the Fed's monetary policy committee said any interest rate decision will be based on a variety of economic data, and will likely come "a considerable time" after the end of its bond purchases, now down to $55 billion a month after three rounds of tapering. Most committee members expect the Fed's near-zero target rate to end 2015 at 1%.

In the wake of Russia's Crimean takeover, European Union countries and the United States agreed to prepare tough economic sanctions that could be imposed if Russia makes further moves to destabilize Ukraine. Also, the G8 nations canceled the summit that had been scheduled to be held in Sochi in June and ejected Russia from the group.

European leaders declined to take stronger action to counteract an inflation rate so low that it raised concerns about the possibility of deflation. However, central banks in some emerging-market countries, including Brazil, India, Turkey, and South Africa, raised rates sharply to try to stem capital outflows from their currencies and/or fight inflation.

Now you see it, now you don't: Mt. Gox, at one time the largest Bitcoin exchange, filed for bankruptcy after 850,000 bitcoins--nearly half a billion dollars' worth of the virtual currency--disappeared faster than Ukrainian flags over Crimean government buildings. However, Mt. Gox subsequently said it had located 200,000 bitcoins in digital wallets used before June 2011.

Housing suffered from frigid weather throughout much of the country as housing starts and sales of both new and existing homes saw strong declines during the quarter. However, building permits issued in February--an indicator of future activity--offered shoots of hope, rising 7.7% during the month.

U.S. manufacturing also appeared to be affected by winter weather, though by the end of the quarter, two key Fed manufacturing surveys as well as that of the Institute for Supply Management® had shown signs of rebounding. Manufacturing data from China raised bigger concerns. Indications that the country's breakneck growth could be slowing across the board raised concerns about the potential global impact if reduced demand there affects emerging markets whose economies rely on exporting commodities to China.

Overall inflation remained tame at both the consumer and wholesale levels. Both annual inflation rates have hovered in the neighborhood of 1% since October, giving the Federal Reserve plenty of breathing room to keep interest rates low.

The Senate Banking Committee's bipartisan leadership announced plans to replace Fannie Mae and Freddie Mac with a system of government-backed mortgage insurance that would be administered by a new Federal Mortgage Insurance Corp. If adopted, the legislation would require a minimum down payment for FMIC loans, create a mechanism for standardizing mortgage-backed securities based on them, and require private lenders to suffer a 10% loss before insurance payments would be triggered.

Eye on the Month Ahead

As a relentless winter finally begins to release its grip on much of the country, investors may get a clearer sense of whether sluggish Q1 economic data was primarily the result of bad weather or something more troubling. Speculation about the timing of a Fed rate hike will likely continue, along with Fed tapering. Overseas, the state of China's economy will continue to be a focus, and the potential for tougher economic sanctions against Russia, which could affect global oil supplies, also bears watching.

In closing,

As always, we want to thank you for your continuing support and ongoing belief in our investment methodology.
We understand that in a world where the financial architecture can at times be uncertain, there are domestic and global areas of opportunity where the reward for allocating investment capital does in fact justify the allotment of appropriate risk.

As you know by now, Financial Concepts has always prided itself on preserving capital by investing with a margin of safety through our asset allocation and portfolio construction. We believe that the market may at times punish certain asset classes, for reasons that may be rational and/or irrational. However, our best ideas have consistently come from both forming our own opinions as a firm and, at times, taking a contrarian view of the world itself. There will be times when we reposition the portfolios in response to positive or negative events; there will be times when deciding to remain constant in our allocation is the best decision at hand. In either case, please know that we always have your best interest and financial well being at hand. This is both our commitment and our guide when managing your portfolio.

Sincerely,

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Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. Market indices listed are unmanaged and are not available for direct investment.

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