Third Quarter Commentary, October 2014

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Rising Volatility

The third quarter was choppy for both domestic and international markets highlighted by rising volatility, dropping oil prices, and escalating geopolitical tension. However, the U.S. economy continued to churn along at a steady pace posting slight gains. One of the most notable items this quarter was the monthly jobs numbers with the unemployment rate now down to 5.9%. Headline news became more of a factor as polarizing views on the future of this current bull market coincided with increasing volatility.

The S&P 500 posted a gain of +1.13%, despite a sharp sell-off in July. However, the international markets were anything but positive due to geopolitical tensions and the consequences thereof. For investors with international exposure, this was a major headwind to their portfolios. Looking ahead, it is nearly impossible to predict further escalation of geopolitics, if oil will continue to decline, or if the Fed will be able to keep rates in check. However, what we do know is that each circumstance brings risk as well as opportunities. Simply put, a well-diversified portfolio can mute a lot of the volatility of choppy markets and capitalize on long-term opportunities.

Domestic Equities

Small capitalized companies felt the brunt of the volatility this quarter as they endured a sharp sell-off during the third quarter, with the Russell 2000 sliding down 7.36%. Furthermore, from a technical perspective, the Russell 2000's 50-day moving average crossed below its 200 day moving average. This may be construed as bearish, but history has shown that following this cross, the Russell 2000 has performed quite well moving forward.

The S&P 500 finished the quarter +1.13%, the DIJA +1.87% and the Nasdaq Composite + 1.93%. Despite these positive performances, there were some lagging sectors, primarily in energy, which outperformed the index through July. Logically, we'd expect oil to move higher in instances of geopolitical conflict; however the sanctions currently imposed on Russia are aiding in the downward pressure on oil. This is great for the consumer as the pump now owns less of our wallet, but will be tough for the larger diversified energy companies. As a contrarian, some of these companies may now offer wonderful buying opportunities. Conversely, healthcare and biotech continue to lead all the major sectors with strong performance and notable price momentum in the larger names.

Fixed Income

The U.S dollar is now at its strongest point in more than four years, which has helped U.S. risk free rates. Conversely, it has had the opposite effect on international fixed income as well as emerging economy equities and fixed income. There is a possibility that this strengthening dollar may be the beginning of a longer term trend. Notable in global fixed income was the yield of the 10-year German Bunds which reached a record low of .88%. The Barclay's U.S. Aggregate Bond Index concluded the third quarter +.17% and year-to-date is + 4.10%. Barclays Global Aggregate Ex-U.S. Dollar Government Bond Index had poor performance of -5.38%, which illustrates the headwinds international fixed income experienced.

It is possible that with international tensions and lowered growth expectations that the U.S. fixed income markets may continue to perform well. Further, the Federal Reserve plans to keep the fed funds rate at its current level "for a considerable time". This has helped alleviate fixed income investors' concerns over near term rate swings. Long-term, there are many in the investment community uncertain about the prospects for fixed income. However, it is important to remember that investment grade fixed income provides excellent diversification to equity exposure. Even if rates start to rise, one cannot overlook the interest income that may offset the price fluctuations.

International

There is significant uncertainty in the international equity markets. We began 2014 optimistic about the prospects for Europe and the significant value of equities in the emerging economies. Yet, much of this opportunity has been cloaked with uncertainty via the sanctions imposed on Russia, a faltering European recovery, the growing strength of the greenback, and tail risk events such as the Ebola virus becoming more widespread.

We have been patiently waiting for the European Central Bank (ECB) to engage in more aggressive monetary policy actions similar to the Fed's actions over the past several years. It is possible that if easing measures take place abroad, international equities will rally. However, some of this rally will be sacrificed by the momentum of the U.S. Dollar. For the current quarter Europe lead the underperformance with a negative 6.98% return while emerging markets trailed as well, declining 3.36%. The emerging market index remains one of the only positive international indexes this year.

Conclusion

Often the most difficult part of investing is the emotion involved. The investment "experts" with the most polarizing views frequently receive the most coverage in the headlines and consequently can move sentiment and shake confidence. The best advice we can give you is to follow "your" investment plan. Make sure you have recently evaluated the level of risk you are comfortable with within your portfolio through a Risk Tolerance Questionnaire. Determine an asset allocation that is in alignment with your risk level. Then, trust in your allocation and know that you and your advisor have planned your investments to capitalize on opportunities in the long-term, as well as the short-term.

Sticking to your long-term investment plan can be boring when you're not chasing the hottest company and frustrating when you're not experiencing the jaw-dropping returns of the money managers in the news. The famed hedge fund manager, George Soros, summarizes this concept well, "If investing is entertaining, if you're having fun, then you're probably not making any money. Good investing is boring." Ironically, there are no emotions in *boring* and for good investments, this is the goal. Put simply, stay logical and be objective with the long-run in mind for your investments.

As always we appreciate your continued confidence in our firm. Have a wonderful Fall!

Fixed Income		
Index	**Third Quarter 2014**	**Year-to-Date**
Barclays Capital U.S. Aggregate Bond Index	.17%	4.10%
Credit Suisse High Yield Index	-1.94%	3.50%
Barclays Capital Municipal Bond Index	1.49%	7.58%
Barclays Capital Global Aggregate Ex-U.S. Dollar Government Bond Index	-5.38%	-.09%
J.P. Morgan Emerging Markets Index Plus	.18%	4.22%

U.S. Stocks		
Index	**Third Quarter 2014**	**Year-to-Date**
DJIA	1.87%	4.60%
S&P 500	1.13%	8.34%
Nasdaq Composite	1.93%	7.59%
S&P MidCap 400	-3.98%	3.22%
Russell 2000	-7.36%	-4.41%

International Averages		
MSCI Index	**Third Quarter 2014**	**Year-to-Date**
EAFE (Europe, Australasia, Far East)	-5.83%	-.99%
All Country World ex-U.S.	-5.19%	.39%
Europe	-6.98%	-1.44%
Japan	-2.19%	-1.36%
All Country Asia Ex-Japan	-1.54%	4.93%
EM (Emerging Markets)	-3.36%	2.75%

Disclosure

You should carefully consider the investment objectives, potential risks, management fees, and charges and expenses of any investment before investing. Every Fund's prospectus contains this and other information about the Fund, and should be read carefully before investing. Past performance is no guarantee of future results. The investment return and principal value of an investment in Mutual Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

Fluctuations of the overall stock market due to economic, political or other factors may affect the equity related holdings of the investor. Asset classes and sectors may rise and fall at varying degrees.

Sectors such as oil & gas, real estate, and precious metals tend toward higher volatility than broader market segments.

Bond and other related fixed income investments are subject to the rise and fall of interest rates and changing assessments of issuer credit worthiness and ability to pay.

Cash Investments Risk - the need to hold a given amount of an investor's portfolio in cash or other money market instruments to meet withdrawals or respond to anticipated unfavorable market conditions could result in a lower return than if the cash had been fully invested.

Investments in real estate investment trusts (REITs) and real estate related securities involve special risks associated with an investment in real estate, such as limited liquidity and interest rate risks and may be more volatile than other securities. In addition, the value of REITs and other real estate related investments is sensitive to changes in real estate values, extended vacancies of properties and other environmental and economic factors.

Investments in international markets present special risks including currently fluctuation, the potential for diplomatic political instability, regulatory and liquidity risks, foreign taxation and differences in auditing and other financial standards. Risks of foreign investing are generally intensified for investments in emerging markets.

An investment in an exchange-traded fund (ETF) generally presents the same primary risks as an investment in a conventional fund (i.e., one that is not exchange traded) that has the same investment objectives, strategies, and policies. The price of an ETF can fluctuate up or down, and the Fund could lose money investing in an ETF if the prices of the securities owned by the ETF go down. In addition, ETFs may be subject to the following risks that do not apply to conventional funds: (i) the market price of an ETF's shares may trade above or below their net asset value; (ii) an active trading market for an ETF's shares may not develop or be maintained; or (iii) trading of an ETF's shares may be halted if the listing exchange's officials deem such action appropriate, the shares are delisted from the exchange, or the activation of market-wide "circuit breakers" (which are tired to large decreases in stock prices) halts stock trading generally.

Performance reporting for the above indexes is obtained from publicly issued and available data from a variety of sources including financial web sites such as Morningstar ®, Yahoo Finance ®, and The Street.Com®.