



# Market Recap & Portfolio Commentary

## *Third Quarter 2014*

### Global Economic Update

---

Global central bank activity and its potential impact on asset prices remains at the forefront for investors in the current market environment. In the United States, continued signs of a strengthening economy have led to questions about when the Federal Reserve (FED) will begin to tighten monetary policy. Conversely, the European Central Bank (ECB) recently announced another round of unprecedented monetary policy measures in an effort to support the fragile economic recovery in the Eurozone and to respond to concerns over deflation. The likelihood for divergence in monetary policy in the coming years after a prolonged period of synchronized, accommodative support from central bankers has led investors to begin considering the future impact of central bank policy on the economy and capital markets.

Overall, the U.S. economic recovery remains robust and appears likely to accelerate in the second half of the 2014 despite a slow start to the year. In the first quarter, the U.S. economy, as measured by gross domestic product, surprisingly shrank by 2.9% on a seasonally adjusted annualized basis. While investors had expected a temporary slowdown due to effects from the unusually harsh winter weather, the magnitude of the decline was a surprise as it was the largest since the financial crisis and one of the largest during a non-recessionary period since World War II. However, economists continue to expect economic growth to accelerate in the second half of the year based upon positive signs from the labor market. The July employment report showed significant improvement in the job market with non-farm payrolls increasing by 288,000 and the unemployment rate falling to 6.1%. Further, increases in domestic energy production through advancements in technology have increased hopes that the U.S. will be able to meet the majority, if not all, of its future energy needs through domestic sources.

As the U.S. labor market continues to improve, investors have begun to question when the Federal Reserve will begin to tighten monetary policy to protect against potential asset bubbles and inflation. At its last policy meeting, the FED Open Market Committee indicated that it expects to end its asset purchase program, better known as Quantitative Easing, by October of this year. While this had been widely expected by investors, the question of when the Federal Reserve will begin to increase short term interest rates has come to the forefront. Several members of the FED's Open Market Committee have indicated an expectation that strength in the labor market could lead to wage increases and ultimately higher levels of inflation than the market currently expects. The FED's low interest rate policy, with short rates close to zero, has provided support to both the economy and capital markets in recent years, and a rise in rates has the potential to be a headwind for investors in the coming years.

In Europe, investors were focused on a new round of unprecedented monetary policies announced by the European Central Bank. Europe appears to be emerging from its prolonged recession, but persistently high unemployment and ongoing concerns about deflation threaten to derail the fragile recovery in the Eurozone. The ECB announced a package of measures designed to incentivize Eurozone banks to increase lending to businesses and consumers by setting a negative deposit rate on reserves held at the ECB and offering inexpensive, long-term financing to banks to help fund loan growth. Mario Draghi, president of the ECB, also indicated that the ECB would be open to



Freedom Capital  
Management Strategies®

*Authored by the Freedom Capital Management Strategies® Investment Committee*

*July 2014*

Securities and Investment Advisory Services offered through Founders Financial Securities, LLC. Member FINRA, SIPC and Registered Investment Advisor.

This material contains the opinions of the author(s) but not necessarily those of Founders Financial Securities, LLC and such opinions are subject to change without notice. This material has been distributed for informational purposes only. Forecasts, estimates, and certain information contained herein are based upon proprietary research and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

# Market Recap & Portfolio Commentary

## *Third Quarter 2014*

considering asset purchases, similar to those implemented by its peers in the US, UK, and Japan in recent years, should this round of policy measures fail to lead to the desired increases in bank lending and inflation.

Emerging markets have stabilized in recent months after a volatile start to the year despite ongoing geopolitical instability in Ukraine and the Middle East. China continues to be the key market in the emerging world due to its size and its outsized impact on global trade, especially in commodity markets. While Chinese growth has decelerated from the rapid pace of the past decade, growth levels remain robust and the country's economic transformation appears set to continue. A positive leadership transition in India has left investors hopeful that long-awaited and much-needed structural reforms will finally take hold to support the country's growth and development needs. Despite positive developments in much of the emerging world, geopolitical risk remains a concern in Ukraine and the Middle East, which has led to heightened volatility in global energy prices.

### **Global Capital Markets Update**

The global capital markets had a strong second quarter after a volatile start to the year. Equity markets generated strong gains during the quarter led by emerging markets. Fixed income markets experienced another quarter of gains as interest rates continued to decline in response to subdued inflation and ongoing accommodative central bank policies after the spike in rates a year ago. Commodity markets also saw strong gains in the quarter largely due to rising energy prices in response to instability in the Middle East, especially Iraq. Volatility levels across global capital markets continue to be subdued indicating that investors remain confident that the bull market is set to continue and that risk levels remain low.

U.S. equity markets remain at record high levels as markets have continued to rise in 2014 led by gains in the energy, health care, and utilities sectors. The current stock market recovery is one of the longest and most robust in recent memory and has led to questions about valuation levels. Although U.S. equity markets have been cheap for most of the market recovery that started in 2009, the strong gains over the past year have resulted in less compelling valuations, especially among smaller companies. Currently, U.S. equity market valuations have risen to slightly above long-term average levels indicating that U.S. equities are no longer cheap. Going forward, corporate earnings and Federal Reserve Policy will be important to monitor in assessing the sustainability of the bull market.

International equity markets also generated strong gains in both the second quarter and for the year. Valuations in international equity markets continue to appear favorable relative to the U.S. as investors remain skeptical of the recovery in Europe and the sustainability of growth in emerging markets. Due to a combination of low expectations and relatively inexpensive valuations, international markets appear to provide opportunity for long term investors.

Fixed income markets remain stable and have continued to generate positive returns in recent quarters after the unexpected volatility last summer. Interest rates have declined from the peaks of 2013 as the bond market continues to indicate that economic growth and inflation will remain subdued for an extended period. The direction of Federal Reserve policy will likely be a key driver of interest rates and the bond market in the coming years.



Freedom Capital  
Management Strategies®

*Authored by the Freedom Capital Management Strategies® Investment Committee*

*July 2014*

Securities and Investment Advisory Services offered through Founders Financial Securities, LLC. Member FINRA, SIPC and Registered Investment Advisor.

This material contains the opinions of the author(s) but not necessarily those of Founders Financial Securities, LLC and such opinions are subject to change without notice. This material has been distributed for informational purposes only. Forecasts, estimates, and certain information contained herein are based upon proprietary research and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed.



# Market Recap & Portfolio Commentary

## *Third Quarter 2014*

### Portfolio Commentary

---

Below are portfolio commentaries that summarize the positioning of our investment strategies across each of our core Elements – Foundation, Dynamic, and Alternative – along with a summary of activity in our risk mitigation strategies. The Investment Committee at Freedom Capital Management Strategies® is continually monitoring the complex financial world in an effort to prudently manage the balance of risk and opportunity for our clients. We remain confident that our active investment strategy, with risk management at its core, is well positioned to navigate ever-changing capital markets in an effort to provide our clients a path to achieving their financial goals and dreams.

### Freedom Foundation® Element

---

Based upon our latest analysis of the global economy and capital markets, the Investment Committee has decided to maintain equity exposure at maximum levels across Foundation models - a posture we have maintained since June of last year. We continue to find the risk/reward favorable in equity markets relative to fixed income markets.

Although equity market valuations have become less compelling over the past year in the U.S., valuations remain reasonable from a historical perspective. Growth in the global economy appears poised to accelerate during the second half of the year, which should be supportive of corporate earnings and stock prices. Corporations have also begun to increase investment activity and hiring which should be supportive of growth. Fixed income investors continue to be confronted with persistently low yields indicating that long-term return expectations remain muted, and the potential for rising interest rates presents additional risks to bond investors in the current environment.

The equity component of the Foundation models remains diversified globally across both developed and emerging markets. We continue to maintain an overweight exposure to international equities, both developed and emerging, based on the favorable valuation dynamics relative to the U.S. discussed earlier. We also further reduced our allocation to U.S. small and mid-capitalization equities, which appear overvalued at current levels after strong gains in recent years. We continue to prefer large cap, high quality equities in the U.S.

The fixed income component of the Foundation models remains conservatively positioned, especially with respect to interest rate risk, due to our continued concerns about the low level of interest rates and the potential for interest rates to rise in the coming years, which could prove a headwind to bond markets. We continue to emphasize broad based diversification across corporate, global, and sovereign debt in our fixed income portfolios and have recently increased our allocation to international bonds. Although this conservative positioning has led to more muted gains in our fixed income holdings in 2014 relative to broad market indices, we continue to believe it is prudent to be positioned defensively in our bond portfolios in the current environment.



Freedom Capital  
Management Strategies®

*Authored by the Freedom Capital Management Strategies® Investment Committee*

*July 2014*

Securities and Investment Advisory Services offered through Founders Financial Securities, LLC. Member FINRA, SIPC and Registered Investment Advisor.

This material contains the opinions of the author(s) but not necessarily those of Founders Financial Securities, LLC and such opinions are subject to change without notice. This material has been distributed for informational purposes only. Forecasts, estimates, and certain information contained herein are based upon proprietary research and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

# Market Recap & Portfolio Commentary

## *Third Quarter 2014*

### Freedom Dynamic® Element

---

The Freedom Dynamic® Element seeks to utilize tactical asset management and concentrated portfolios in an effort to achieve higher rates of return with less attention to levels of risk. During the second quarter, emerging market equities outperformed while U.S. small cap equities and fixed income markets produced positive but less robust returns. The energy sector had a strong second quarter driven by rising oil prices in response to renewed instability in the Middle East. Further, traditionally defensive and yield-focused sectors have continued to outperform in 2014 led by utilities, real estate, and health care.

Heading into the third quarter, our core tactical strategy, Dynamic Focused, is positioned with tactical exposure to developed international equity markets due to recent relative strength and attractive valuation levels. From a sector perspective, we have tactical exposures to the following: NASDAQ, software, energy, banks, utilities, and real estate. Our individual security models have generated strong returns on the year led by our Dynamic Dividend and Dynamic Income models, which have benefitted from exposure to high quality, dividend paying equities and yield-sensitive segments of the markets. Our Dynamic Equity model produced more modest returns due to its emphasis on small cap equities; we have repositioned this model to reduce risk due to increased valuations in small cap stocks.

### Freedom Alternative® Element

---

The Freedom Alternative® Element seeks to capitalize on non-traditional asset classes and investment strategies in an effort to more holistically diversify investor portfolios. As is typical, the Alternative models were impacted by a variety of factors during the quarter due to the unique, and oftentimes uncorrelated, nature of these strategies. The Absolute Return model generated positive returns, but lagged global equity markets, due to the lower risk nature of the strategies employed by the mutual funds held in this model portfolio. The Quantitative model, which follows a relative-strength based, technical investment approach, generated solid gains driven by a continued overweight to U.S. equities and the decision to add international equity exposure in May to replace the short term bond allocation. The Hard Assets model generated strong gains during the second quarter driven by its high allocation to energy-related commodities, which rallied strongly in response to rising energy prices.

### Risk Management

---

The proprietary risk mitigation overlays available through Freedom Capital Management Strategies® are designed to provide an additional layer of wealth protection to investors through a systematic hedging process. The Risk Assist models remained un-hedged throughout the second quarter as both expected and realized volatility continued to be subdued. As a result, investors utilizing this hedging overlay were able to participate fully in the strong gains generated in the underlying investment strategies during the quarter.



Freedom Capital  
Management Strategies®

*Authored by the Freedom Capital Management Strategies® Investment Committee*

*July 2014*

Securities and Investment Advisory Services offered through Founders Financial Securities, LLC. Member FINRA, SIPC and Registered Investment Advisor.

This material contains the opinions of the author(s) but not necessarily those of Founders Financial Securities, LLC and such opinions are subject to change without notice. This material has been distributed for informational purposes only. Forecasts, estimates, and certain information contained herein are based upon proprietary research and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed.