



Falcon Financial Management, Inc.

August 8, 2014

Dear Friends:

After the amazing year in the stock markets last year this has been a frustrating year for many. I want to take a minute to discuss some basic issues that seem to confound many of my friends in and out of the business.

First, the stock market is not the economy, bull/bear markets are not the same as recessions. They all have specific definitions. For example; in the stock market a bull market is “defined” by a gain of 20%. This bull market (using the Dow Jones Industrial Averages (DJIA) as my index) started on March the 9th of 2009. It has been marching upward since then. There have been corrections, 5-10% drops (or as the news media would say plunges!) in the DJIA but there has not been a correction that qualifies as a bear market correction.

This is important because a bull market will run until you have a bear market correction which is defined as a 20% drop. This is a fundamental and specific definition of a bear market and the bull keeps running until there is a bear market.

This is the 4th longest bull market of all time, over 64 months. The average bull market only runs on average of 42 months. You can see we have a bull who is long in the tooth as well as having established all-time highs.

It cannot go on forever, trees don't grow to the sky and every bull market comes to an end. This one will too.

That said, many, if not all, of you have heard us talk about the life boat drill. What are you going to do when the boat takes on water? What are you going to do when the market falls? I have been expecting the bear market correction since January of 2013 so I am obviously way off on that one. I sometimes feel like Chicken Little walking around with my umbrella under my arm saying that it's going to storm, get ready, be prepared and friends are saying Jeff, it's still sunny out.

Well it has been ... but this isn't if ... this is when. Here at FFM we have been preparing for this storm for a while.

Our philosophy for investing for our clients has been to preserve principal as much as we can and to get reasonable returns. I would suggest that you take a look at your retirement plans that we don't oversee. Now might be a good time to reduce your exposure to stocks, not eliminate, but reduce the exposure to a level that you can be comfortable with.

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I want to urge if you have 401(k)'s or 403(b)'s from previous employers now might be a good time to get them under your control. I don't like to see you have retirement plans with former employers. You have no control over any decisions they make with their plan. They can go from one fund family to another and when they do they normally try to reposition you in a fund that is similar to the one you had, but there is no guarantee. I like to see you get those investments under your own wing, you can roll them into an IRA without incurring any income taxes.

If you have one here Darla or me can help you with it. If you don't ... talk to Darla or me (I have a friend who teaches creative writing and he recently explained to me that it isn't Darla and I it is Darla and me that is so hard to do!!) and we can explain how this is done.

The second issue is the economy. The stock market is recognized as a precursor to the movement in the economy. The stock market will go up or down in advance of moves in the economy. Our economy goes through cycles of expansion and recession. Just like the markets. The economy when it is humming will average better than 3% Gross Domestic Product (GDP). On the other side, ***a recession is defined as two consecutive quarters of negative GDP.***

As many of you know I have used the Institute of Supply Management Index (ISM) as a gauge of whether the economy is expanding or contracting. When over 50 the ISM indicates an expanding economy and when below 50 it indicates a contracting economy. This month's ISM index is 57.1, the highest the index has been in the last 12 months, and continues a strong trend of economic expansion. I do not see a recession in the near future

Some friends point to the 1st quarter's negative GDP as an indication of the poor health of the economy. That was followed by this quarter's great numbers. Let me remind you that the 1st quarter's numbers were adjusted down after the initial numbers were released, they got worse, and unfortunately this quarter's great numbers will be adjusted too, and I suspect they will be adjusted down, as they usually are.

Frankly, most people I know have lost confidence in most of the numbers being produced by the Feds. How many of us think that the inflation number is accurate, or the unemployment number? It is sad that the numbers we so often rely on have been manipulated over and over to the point of a crisis in confidence in their accuracy.

It is important to remember these moves in the stock market and the economy are like the seasons of the year. There are always springs and summers and there are always falls and winters. Some are milder than others, some are worse. Some are longer than most and others are shorter. They will come just as bear markets and recessions will come, we just hope that they are mild.

We expect to see the Dow break 18,000 in the next 12 months. We remain very bullish for the long term and we are cautiously optimistic in the short run...prepared for the worst and hoping for the best.

I'm not going to bore you with the more "how the watch works" in this letter, but keep your eyes open for a more detailed explanation of interest rates and their impact on our investments.

The Reader's Digest version is that I expect interest rates to go up in the coming months and that interest rates will be going up for a long time. ***We are shortening the duration of our bond investments and rotating from bonds to conservative dividend paying alternatives.*** Consider doing the same with investments held away from FFM.

Here is our Score Board for this Quarter:

The Scoreboard
www.investmentadvisor.com

| | 3 rd Q 2012 | 4 th Q 2012 | 2012 | 1 st Q 2013 | 2 nd Q 2013 | 3 rd Q 2013 | 4 th Q 2013 | 2013 | 1 st Q 2014 | 2 nd Q 2014 |
|--------------------|---------------------------|---------------------------|-------|---------------------------|---------------------------|---------------------------|---------------------------|-------|---------------------------|---------------------------|
| S&P 500 | 6.4% | -0.4% | 16.0% | 10.6% | 2.9% | 5.2% | 10.5% | 32.4% | 1.8% | 5.2% |
| DJIA | 5.0% | -1.7% | 10.2% | 11.9% | 2.9% | 2.1% | 10.2% | 29.7% | -0.2% | 2.8% |
| NASDAQ | 6.5% | -2.7% | 17.5% | 8.5% | 4.5% | 11.2% | 11.1% | 40.1% | 0.8% | 5.3% |
| LBAB | 1.6% | 0.2% | 4.2% | -0.1% | -2.3% | 0.6% | -0.1% | -2.0% | 1.8% | 2.0% |

(Investors cannot invest directly in indexes)

I want to close this Quarter's letter as I have before by reminding you that we are here to solve problems. That's what we do.

On the whole I am not recommending any significant changes, your individual situations may change and as they do we may need to make individual changes for you. Do not hesitate to let Darla or me know if there is anything you need from us. When we can assist, we will.

I would also like to once again invite all of you to listen to me on Saturday mornings at 8:30 am where I continue to host the Sky's longest running radio call-in show, Dollars and Sense, on 97.3 FM. Our show Dollars and Sense was just recognized this week as one of the top 100 Financial Radio Shows so join us!

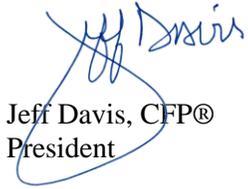
If you are not in Gainesville and would like to listen to the show it is also available via the WSKY's website www.thesky973.com. So check us out on Saturday mornings. If you have questions or topics that you would like us to discuss then please give me a phone call or drop us a line at ffm@ffmonline.com.

In addition, I want to remind you that we have been hosting The FFM Rotating Art Exhibit for over 10 years. The exhibit, coordinated by our good friend and partner Linda Pence, features some of our area's best artists. Keep an eye out for the Open House that we regularly host to celebrate the great art work produced by our local art community. This quarter features one of my favorite artists, Bob Senesac. I don't usually like photography as much as paint, but that said, Bob's art is exceptional. Come by and see it if you have time and are in the neighborhood.

I also want to take this opportunity to ask you to remember us when friends and family are struggling with these same questions going forward. Many folks are in retirement plans that don't offer them the kind of investment and planning advice that we provided for you. We have built this business on referrals, on the idea of working with a lot of people just like you. We appreciate you and would like to help those around you.

Thank you for your continued friendship and support.

Best wishes,

A handwritten signature in blue ink, appearing to read "Jeff Davis", is written over a circular blue stamp or seal.

Jeff Davis, CFP®
President

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