

FINANCIAL MANAGEMENT

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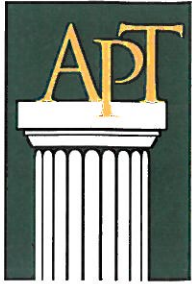
At this year's halfway point, we are pleased to offer the *LPL Financial Research 2014 Mid-Year Outlook: Investor's Almanac Field Notes* containing key observations and updates to our outlook for 2014. Similar to a farming almanac, our *Investor's Almanac* is a publication containing a guide to patterns, tendencies, and seasonal observations important to growing. The goal of farming is not merely to grow crops, but to sustain living things—investing shares the same goal.

As we expected, markets in 2014 have been less influenced by politics and policymakers than in 2013 and more dependent upon growth. Growth is an essential characteristic of all living things, and in 2014, growth is vital to our outlook for the economy and markets. Our notes from the field contain these key observations and reaffirm our forecasts for the second half:

- After an extreme winter weather-induced slowdown in the first quarter, the U.S. economy began to thaw with the warmer temperatures in the spring. We continue to believe U.S. economic growth is on track to accelerate by about 1% over last year, owing to the return of business spending and the elimination of the drag from fiscal policy. As a result, the Federal Reserve (Fed) is likely to continue to taper its bond purchases and end its bond-buying program in the fall, leaving rate hikes on the calendar for some time next year.
- Stocks spent the winter months dormant, but emerged in the spring rising to new highs and producing a gain of about 6% by early June—halfway to our target range of 10-15% for the full-year of 2014.* Historically, double-digit gains are typical for years in the middle stage of the economic cycle. The current mid-cycle environment has even produced double-digit gains in 4 of the past 10 quarters. Critical to our outlook, earnings for S&P 500 Index companies are on track for 5-10% growth—with 6% achieved in the relatively weak first quarter. Confidence in the durability of growth may contribute to a slight rise in valuations and, along with earnings growth, generate a low double-digit gain for stocks in 2014.
- Opportunities in the bond market have become scarce. Yields are unattractive and gains are not likely in the second half. We find fewer sectors attractive than at the beginning of the year. We expect yields to rise in the second half of 2014 as global growth strengthens and inflation picks up from the low point in the first half.

The primary risk to our outlook, the possibility that better growth in the economy and profits do not develop, has gained even sharper focus as we move from the threshold of the new year into the midst of 2014. That risk is likely to be more significant in the second half of the year than the distractions posed by the end of the Fed's bond-buying program and the mid-term elections.

Farmers' almanacs have been a source of wisdom, rooted in the core values of independence and simple living, for American growers for over 200 years. In our *Investor's Almanac Field Notes*, we seek to provide a trusted guide to the second half of the year filled with a wealth of



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wisdom for investors. We forecast a healthy investment environment in which to cultivate a growing portfolio.

As always, if you have questions, I encourage you to contact me.

Sincerely,

Leo A. Pitre, MBA, CFP®, CEP®

*As noted in our *2014 Outlook: The Investor's Almanac*, the stock market may produce a total return in the low double digits (10-15%). This gain is derived from earnings per share (EPS) for S&P 500 companies growing 5-10% and a rise in the price-to-earnings ratio (PE) of about half a point from just under 16 to 16.5, leaving more room to grow. The PE gain is due to increased confidence in improved growth allowing the ratio to slowly move toward the higher levels that marked the end of every bull market since World War II (WWII).

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual.

No strategy assures success or protects against loss.

Economic forecasts set forth may not develop as predicted, and there can be no guarantee that strategies promoted will be successful.

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stock representing all major industries.

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