

FINANCIAL MANAGEMENT

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It's not often that we can gain investment insights from an 18-year-old wunderkind.

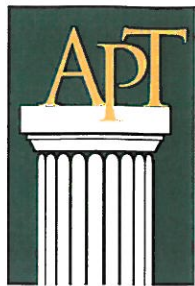
Many of us marveled at the performance of American Mikaela Shiffrin at the Sochi Winter Olympics, where she became the youngest Olympic slalom champion. What makes Shiffrin remarkable is not only her success, but also her approach to the sport. Unlike many of her peers, while training she focused more on technique and practice — the discipline of ski racing — rather than on competing. When Shiffrin lost footing and became airborne on the course, she was able to regain her position quickly as she had practiced her recovery many times before. Throughout all of her training, she took the long-term view.

It can be difficult to take the long-term view in investing, particularly when we are challenged by bumps on the slope.

February, for example, provided investors with mixed signals. Colder and snowier-than-usual weather adversely affected many economic reports, causing uncertainty over the health of the economy to linger. Several high-profile companies also cited the negative impact of weather on future earnings.

Looking at the bigger picture, however, helps us regain our sense of balance. U.S. stock prices appear to be looking past weather disruptions and have rebounded back to near record highs following a soft start to the year. We see underlying strength in most economic indicators including a continued recovery in the housing market, which is supported by easier mortgage availability, limited home inventory, and near-record housing affordability. Absent a severe storm in March, we expect more clarity on the health of the overall U.S. economy in April, when March economic data are released, and we still expect economic growth, as measured by real gross domestic product (GDP), to reach 3% in 2014, based upon many of the drags of 2013 fading, including U.S. tax increases and spending cuts and the European recession, and growth accelerating from additional hiring and capital spending by businesses.

The bond market also hit some bumps, as Puerto Rico was downgraded during the month by all three major credit rating agencies as a result of its large debt burden and multi-year recession. But municipal bond market investors have been thinking longer term and appeared to take the downgrades in stride by noting Puerto Rico is not reflective of the overall market. Just last week, the broader bond market appeared to corroborate the move in stock prices by ignoring another batch of weather-impacted data and anticipating better growth. Bond investors also refocused on a Federal Reserve that remains on schedule to reduce bond purchases and eventually raise interest rates in late 2015.



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Policymakers in Washington, D.C. appear to be taking the longer view as well by focusing less on partisan differences and more on overall economic health. Congress agreed to a “clean” debt ceiling increase without links to the Affordable Care Act or the Keystone XL pipeline. This “clean” bill acted as a positive for the stock market, which may have rallied on the perception that a more business-friendly legislative environment may be developing. We continue to expect a 10-15% gain for U.S. stocks in 2014, as measured by the S&P 500 Index. (Derived from earnings per share for S&P 500 companies growing 5%-10% and a rise of half a point in the price-to-earnings [PE] ratio.)

As we look back at the concerns we’ve had during the past month, we realize — just as Mikaela Shiffrin did on her gold medal run — that we’ve been here before. We know we can trust the discipline and practice of sound investing and stay focused on our long-term goals. Even those of us who are industry veterans can take a lesson from the young champion.

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

Sincerely,

Leo A. Pitre, MBA, CFP[®], CEP[®]

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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 stocks representing all major industries.

The economic forecasts set forth in this letter may not develop as predicted.

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