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Investment Strategy Update **Second Quarter 2014**

The Fed's tapering program is now well established and world interest rates are responding. World economies have another quarter of stabilizing conditions behind them and foreign equity markets should now follow. We are maintaining our modestly aggressive asset allocation relative to each client's personal benchmark.

Robin Smith, CFA, CFS, EA

Our modestly aggressive asset allocation, when compared to each client's personal benchmark, reflects the positive effects of continued improvement in world economies. However, gradually rising interest rates in the United States are now expected to result in modest headwinds for US equity markets as we make our way through 2014 and beyond. We now expect foreign markets to do better in this environment.

Corporate profits are now coming through close to expectations in a very low inflation environment, which should help the Dow Jones and S&P 500 continue to periodically reach new all-time highs. Foreign markets are nowhere near their all-time highs and will not receive the same recognition that the US market has enjoyed, as they begin to outperform US markets.

The U.S. economy grew more rapidly in the fourth quarter of last year than previously estimated, as consumer spending grew at its fastest pace in three years. However, the harsh winter weather during the first quarter of 2014, may very well have slowed that rate of growth marginally.

The Commerce Department's final revision for growth in gross domestic product in the United States for the fourth quarter of 2013, was a 2.6 percent annualized rate. At the time of that report, Bloomberg was maintaing a median forecast of 79 economists for a 2.7 percent increase. The fourth quarter's continued gradual progress toward a normalized grow rate of 3.5% for the US economy, supports our projection that the it will regain its traction this spring and will continue to strengthen as the year progresses.

Our modestly aggressive asset allocation, relative to each client's benchmark portfolio, reflects our expectations for continued improvement in world economies and reasonable valuations in equity markets. Fixed income investments focus on significantly shorter duration, corporate bonds and cash.

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