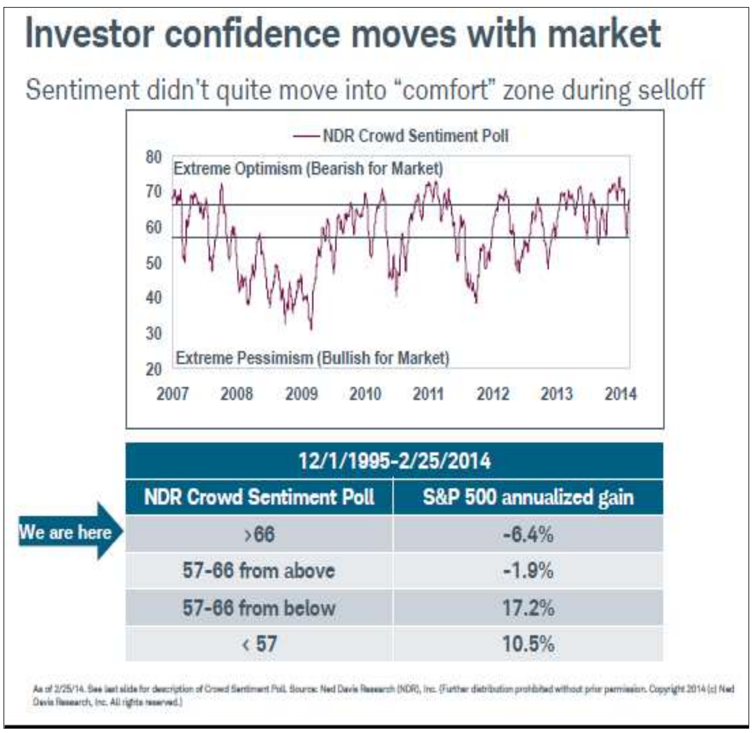
INVESTMENT COMMENTARY

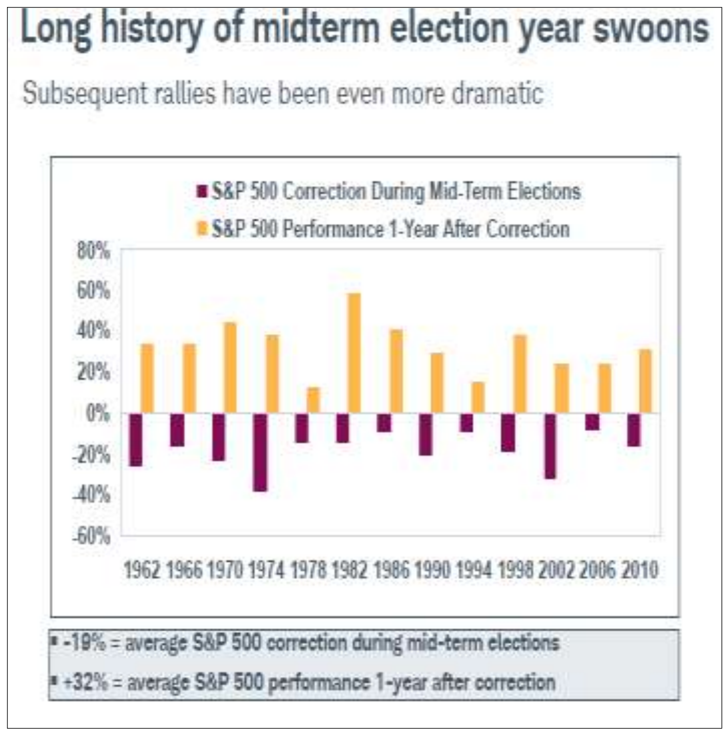
April, 2014

Still Cautious Near Term

At the beginning of the year, the high level of investor optimism prompted us to anticipate a "healthy" 10-15% correction similar to 2010 and 2011 before advancing to higher stock levels. The late January, early February 6% decline caused the sentiment level to touch 60 as shown in the chart, but once again may need to go lower to support the next leg of this bull market.



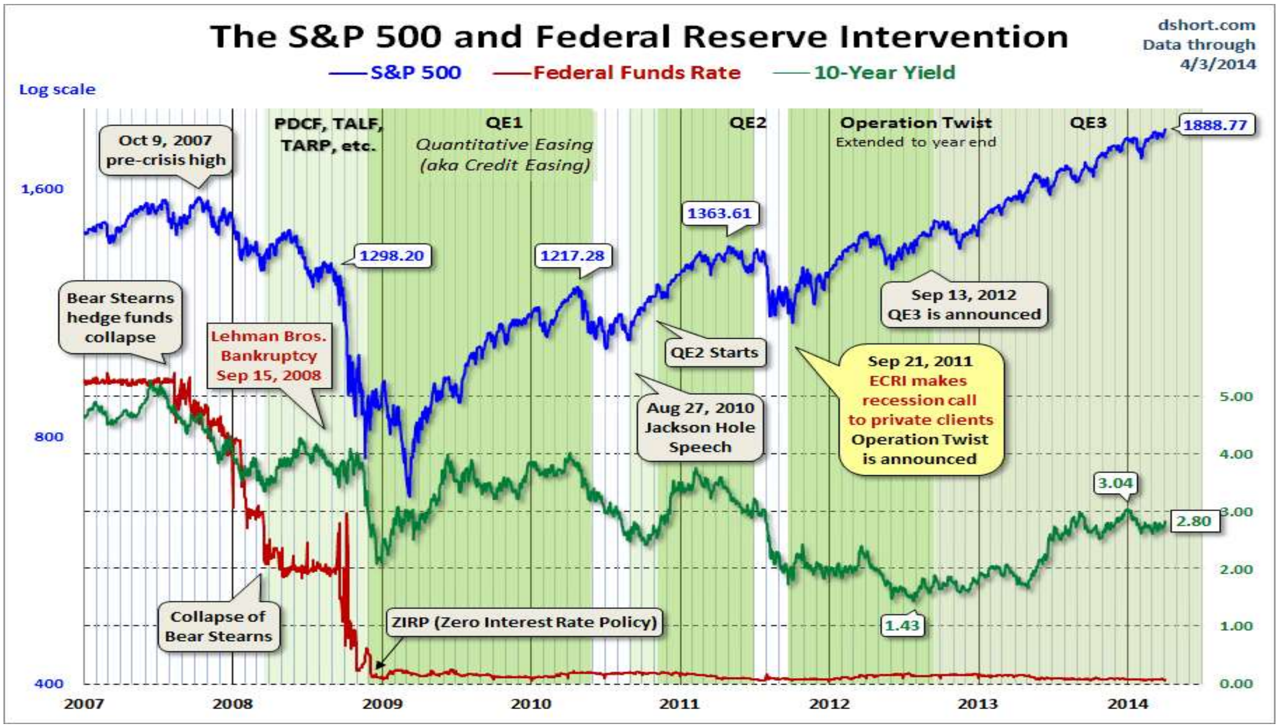
Ned Davis Research - Charles Schwab Market Commentary



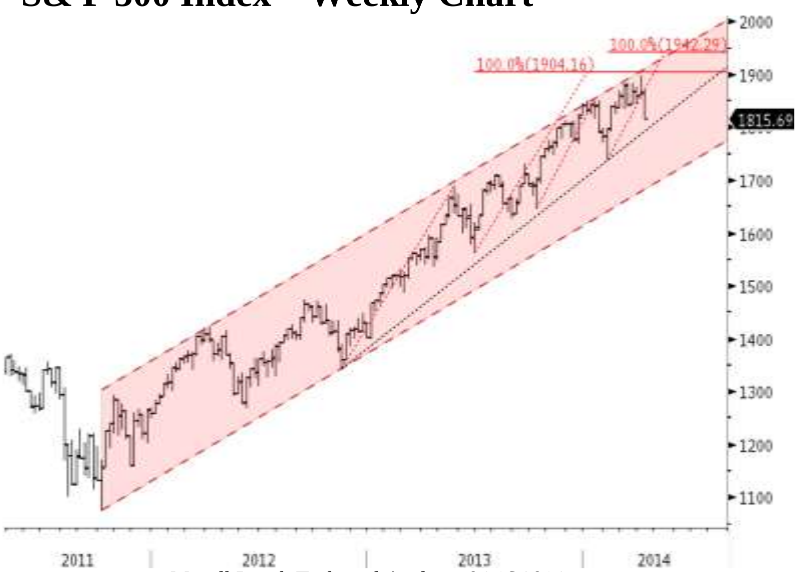
Strategas Research Partners, LLC - Charles Schwab Market Commentary

Also increasing the probability of a short-term pullback this year is the historical evidence of the stock market performance during the mid-term election year. Going back to 1962, the average S&P 500 corrections have been nearly 20%. 1974 and 2002 elections exaggerate the magnitude of this average because they occurred during full-blown bear markets and recessions, which we do not expect at this time. But, perhaps more importantly, look how the S&P 500 was up over 30% one year after the mid-term election correction!

The accompanying chart displays the relationship between Fed Quantitative Easing Policy, the shaded areas labeled QE1, QE2 and QE3 and the stock market. Stocks swooned as both QE1 and QE2 lapsed in 2010 and 2011. Maybe the economy will be on a stronger and more sustainable rate of growth that mitigates another decline.



S& P 500 Index – Weekly Chart

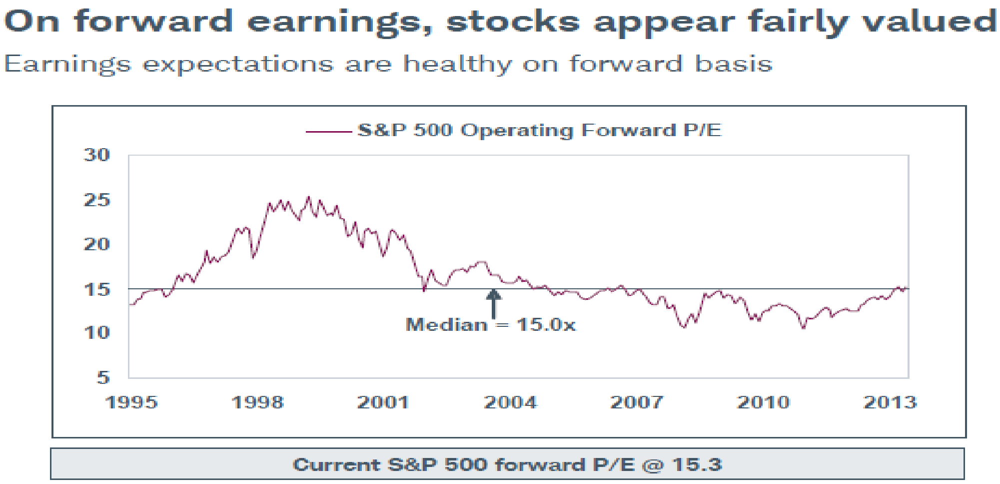


Merrill Lynch Technical Analysis 04.16.2014

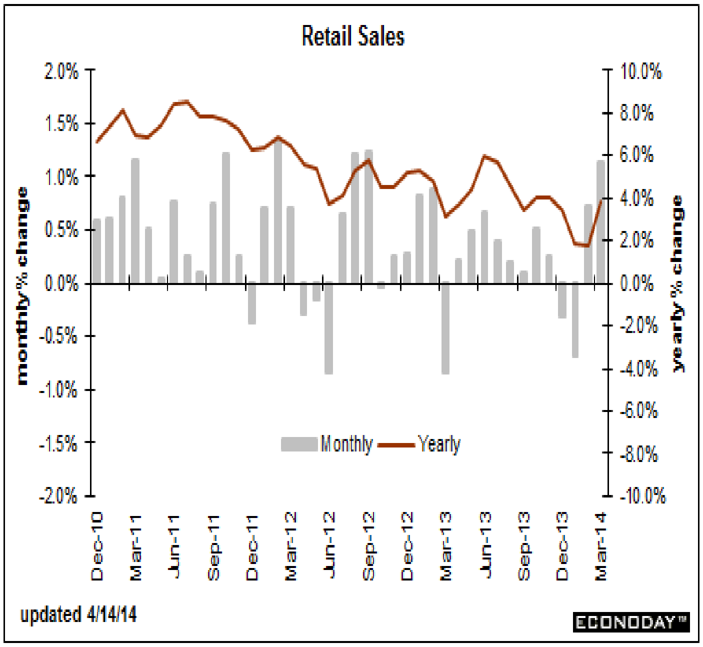
Since this bull market began, it has created an impressive upward price channel. The anticipated decrease in equity prices or an extended period of consolidation within this channel would be construed as a buying opportunity, within the context of a long-term secular bull market.

The Stock Market is Fairly Valued

We are now in the midst of first quarter earnings seasons. *"A near record of 93 companies in the S&P 500 have issued negative guidance on earnings per share (the second highest since 2006) while 18 have offered positive guidance*" according to FactSet. "Earnings for the S&P 500 are forecast to decline 1.2%" in the first quarter, down from a 4% increase predicted as recently as December. The miserable winter weather is partially to blame and the prospect of a spring economic rebound supports higher earnings as the year progresses, keeping valuations reasonable.



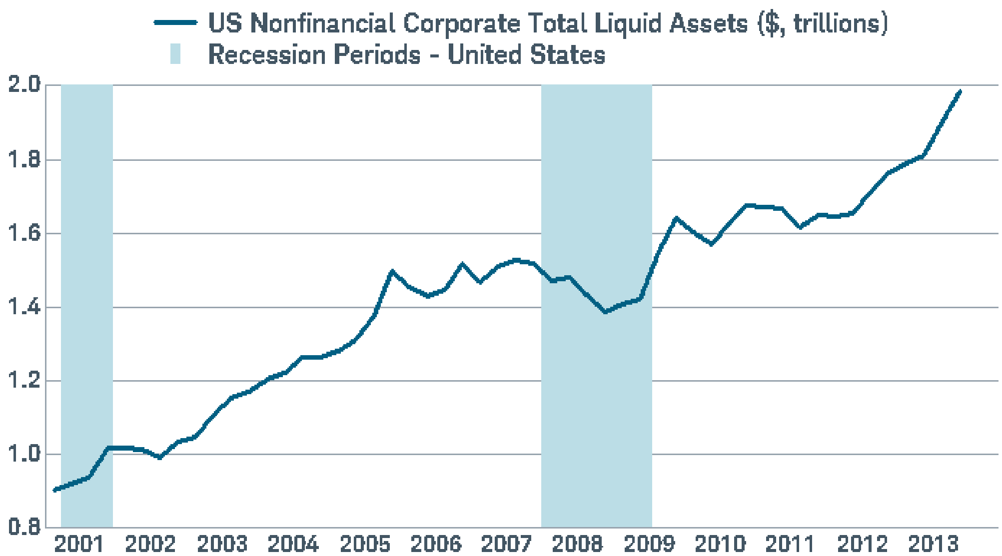
Spring Snapback and Better Second Half?



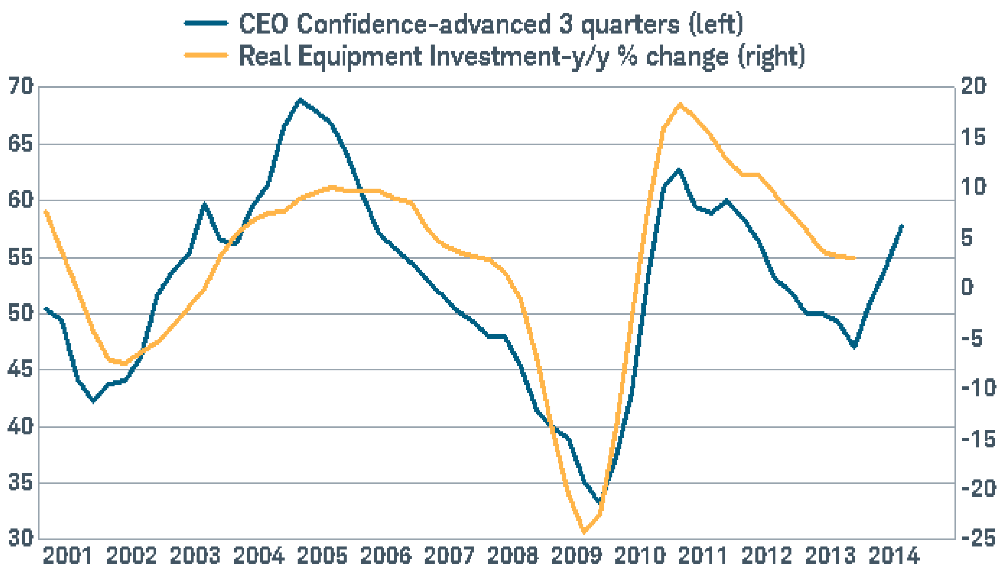
"The spring rebound in economic readings may actually be taking place- at least according to retail sales. Retail sales grew 1.1 percent in March after rebounding 0.7 percent in February (originally up 0.3 percent). Much of the latest advance came from motor vehicles which jumped 3.1 percent, following a 2.5 percent rebound in February. Excluding motor vehicles, sales increased a still healthy 0.7 percent, following a gain of 0.3 percent in February."

"Essentially, consumer spending appears to be playing catch up after consumers were forced to stay inside during adverse winter weather. Today's numbers will likely nudge up GDP forecasts for the first quarter."

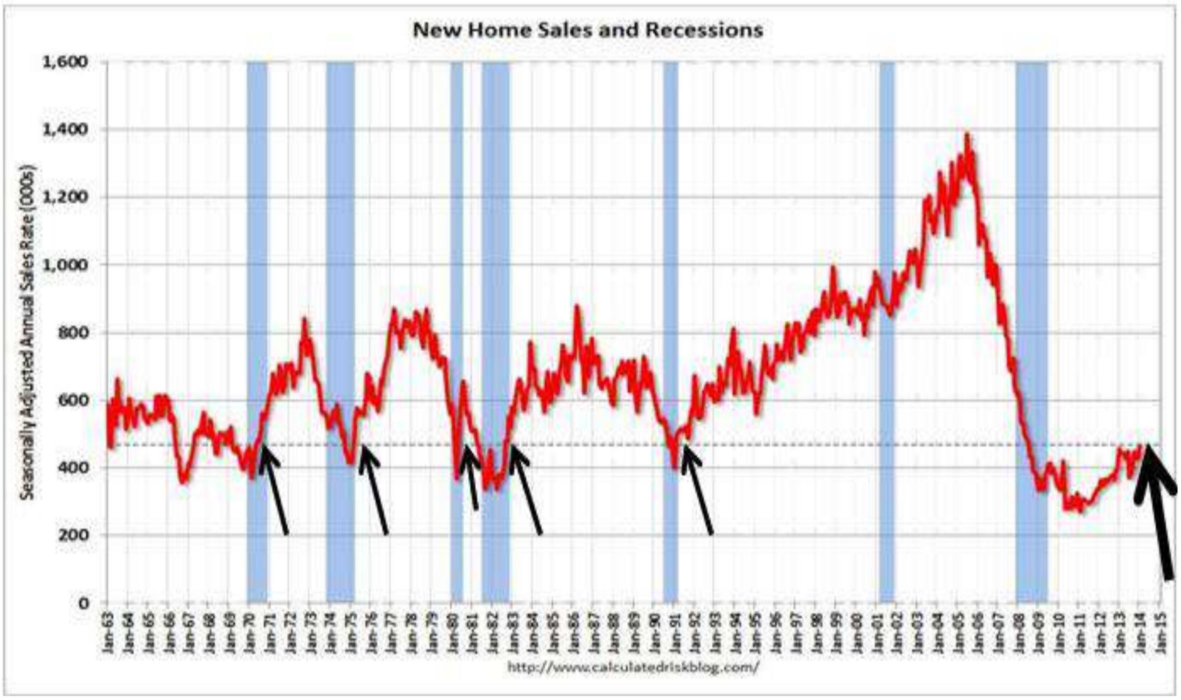
Economists over the last several years have forecast stronger economic growth in the second half of each year. Unfortunately, these optimistic predications were not realized for any number of reasons, to include Washington dysfunction, debate, and deadlines. This may be the year that capital spending and housing growth accelerate the Gross Domestic Product to 3%. The next two graphs demonstrate that huge cash levels could now be utilized by more confident CEO's to expand capital spending.



Bureau of Economic Analysis, FactSet 12.13.2013



Again, for any number of reasons, the pace of economic recovery from the Great Recession has been frustratingly slow. But as the chart demonstrates where the arrows point, it has taken nearly five years to get New Home Sales to the levels they have historically been, coming out of prior recessions. Future economic growth should be accompanied with a significant improvement in New Home Sales.



Hays Advisory

CONCLUSION

As warmer weather thaws the frozen consumer, will the economic rebound be too hot, too cold, or just right? Could a Goldilocks scenario cause another bout of excess optimism? Would a too hot recovery send longer-term interest rates swiftly higher because of inflation worries and convince investors to bail out? Will the economic cycle wobble as the monetary training wheels come off during this transitional year? Will those investors addicted to the monetary punch bowl have withdrawal jitters? Barring a geopolitical event, any of the above possibilities could be sufficient to prompt a correction /consolidation in equity prices. Ironically, the slow pace of economic growth while disappointedly tepid by historical standards, adds longevity to this expansion phase of the business cycle. So, we remain optimistic about the longer-term investment outlook as we face this year's challenge to protect principal over the near-term, and position the portfolio for capital appreciation over the next several years.