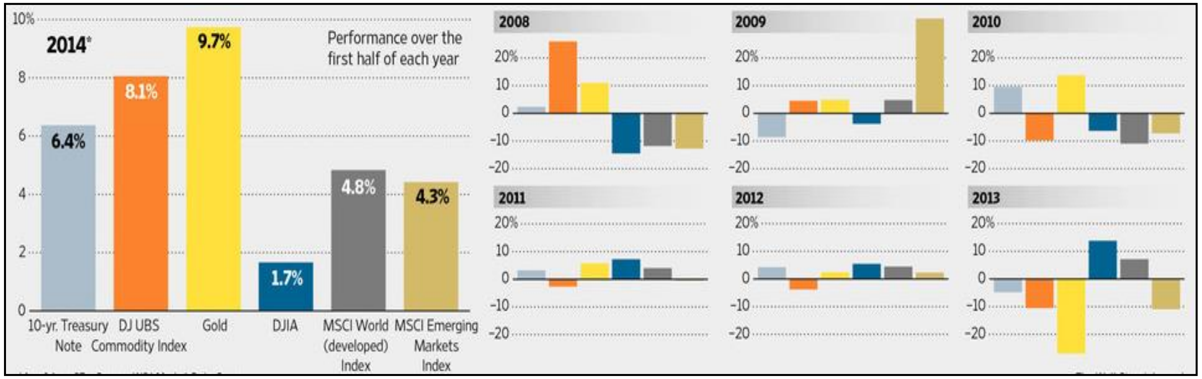
Market Recap

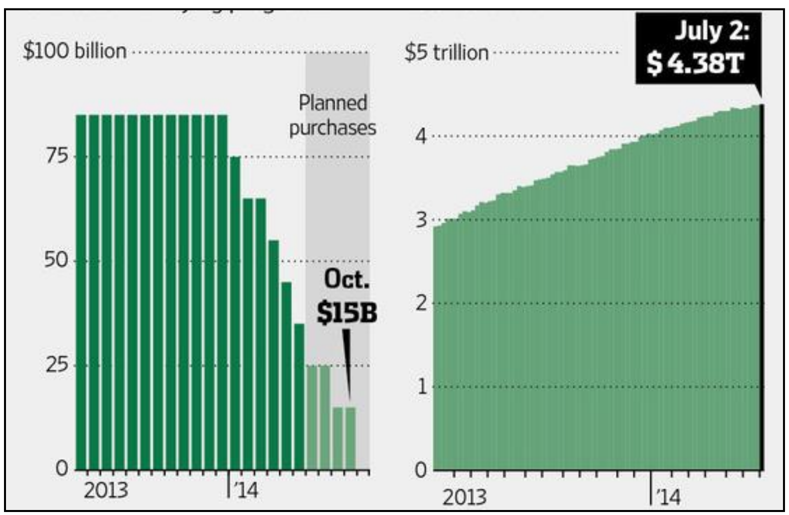
First Half 2014 Performance of Major Asset Classes



Source: WSJ

Stocks, bonds, and commodities rallied in unison during the first half of 2014, a phenomenon not seen in more than 20 years (since 1993). Simultaneous rises in the six major investment categories (see chart) are unusual, because stocks and most commodities tend to rise in good times, while bonds and gold often prosper during periods of economic weakness and market distress. The recent rallies reflect market resilience despite uneven economic growth and political and economic unrest in the Middle East, Ukraine, and elsewhere. Many investors point to signs of global economic gains supported by the commitment of central banks. Others suggest that the sharp declines in bond prices and gold last year amid a 30% rise in the S&P 500 set up those assets for a rebound.

Federal Reserve Bond-Buying Program



Source: Federal Reserve; WSJ

During the Federal Reserve's June policy meeting, officials agreed to end bond purchases in October, putting a definitive end-date to the program. The central bank has reduced bond purchases in $10 billion increments this year, from a peak of $85 billion to the current $35 billion a month. The plan is to further reduce bond purchases in $10 billion increments at each of the next two policy meetings and conclude the purchases with a final $15 billion reduction in October. With the cessation of the bond-buying program, the Fed and investors will turn their attention to the timing and pace of interest rate increases. Fed Chairwoman, Janet Yellen, has indicated a desire to hold off on ratcheting up rates to avoid choking off the recovery. However, waiting too long may spur inflation or even a financial bubble. The current consensus view is that the first rate hike will come next year.

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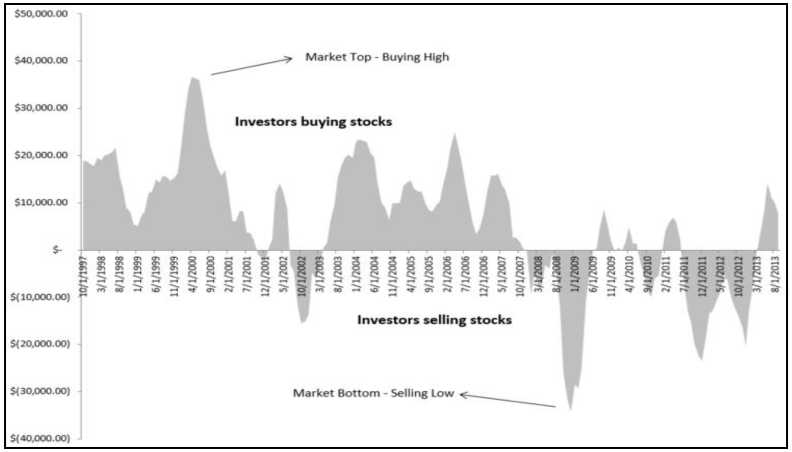
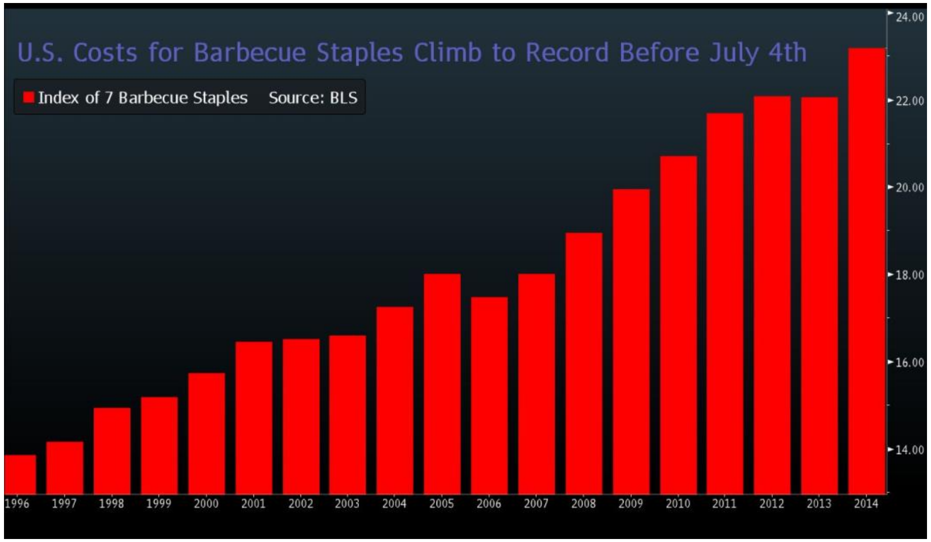
Net Flows for Equity Mutual Funds



Source: ICI

Most investors have a propensity to mistime their investments by buying high and selling low. For the past 15 years, the S&P 500's return was 4.25% per year, which for 15 years compounds to 86.7%. But the 'investor return' of S&P 500 exchange-traded funds, as calculated by Morningstar, was just 2.29% per year, for a total return of 40.4%. That means that because investors have entered and exited the market at the wrong times collectively, they have missed out on more than half of the total return. Fund flows into/out of equity mutual funds during the same rough 15-year period show that inflows peak at the exact market top, while outflows peak at the exact market bottom. The best strategy for an investor to deploy is to hold steady with a long-term market orientation during times of greed/euphoria and periods of fear/panic.

Barbecue Index



Source: Bloomberg

Independence Day is traditionally the most popular time of the year for Americans to cook outdoors. Rising prices for beef, dairy, and produce means Americans spent the most ever for Fourth of July barbecues this year. The Bloomberg-compiled "barbecue index" tracks U.S. retail prices for ground beef, white bread, American cheese, iceberg lettuce, tomatoes, ice cream, and potato chips. The index climbed 5.1% in May from a year earlier to the highest ever for the month. Prices for ground beef are 16% higher than a year earlier, while ice cream increased 1.7%, and tomatoes soared 12%. Ground beef prices are at record levels amid a shrinking U.S. cattle herd, while the drought in California has boosted produce costs.

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