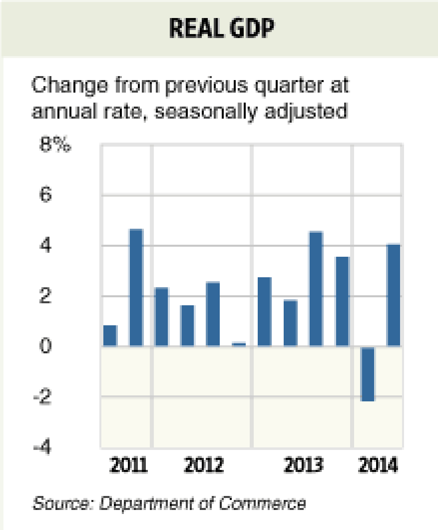
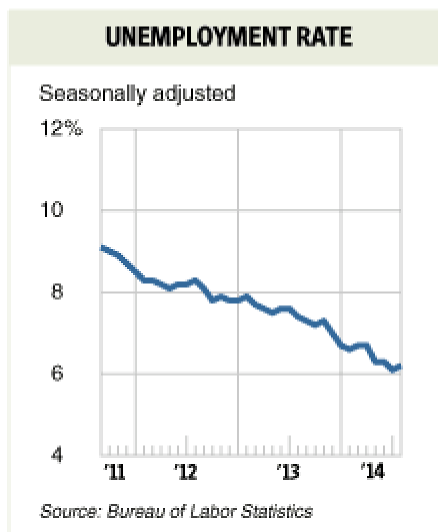
Index	YTD% 2014
Dow Jones Industrials	1.51
S&P 500 index	6.05
NASDAQ Composite	5.54
Russell 2000	3.19
MSCI EAFE	4.78
Barclays Agg Bond	3.93
NYMEX Crude	10.52
COMEX Gold	9.71

The second quarter of 2014 saw markets again move higher, continuing to set new records. Stocks did well across all sectors with the S&P500 posting a 5.2% total return for the quarter. Small and mid-sized stocks did well too but not as well as past quarters. The Russell 2000 benchmark gained a respectable 2.0% but lagged behind large cap and international. The performance leader was previously out of favor emerging market stocks as the MSCI Emerging markets index climbed 6.6% for the quarter. Developed non U.S. markets had positive gains as well with the MSCI EAFE index rising 4.09% for the quarter.



Bonds posted strong results as well. The Barclays Agg Bond index gained 2.0%. It is important to highlight that, despite continued predictions of higher interest rates; rates actually fell in the second quarter on strength in US Treasury bonds. The 10 year Treasury bond yield dropped 0.20% for the quarter. In fact, the 10 year yield is virtually unchanged from a year ago. Continued economic strengthening and Fed tapering will likely lead, at some point, to higher interest rates. But the timing of this is almost impossible to determine. Further, Fed policy seems to be focused on maintaining zero interest rates into 2015.

Choppy market performance in the first quarter led many to question if the positive market momentum would continue. Although the second quarter was a good one, those questions have not abated. Of some concern was the first quarter GDP figure coming in at a negative 2.9% after a positive 2.6% in the fourth quarter. Some of this was due to one time and seasonal adjustments including bad weather in most of the country. However it did cause the Fed to revise its full year estimates down to a range of 2.1 to 2.3% for the year. This was also the primary cause of the decline in interest rates for the second quarter that was mentioned earlier.



For the most part the second quarter was a quiet one on the world stage. Tensions among Russia and Ukraine remained, although little happened in the quarter. Additionally, a limited number of combat troops were sent back to Iraq after a militant group known as ISIS seized several Iraqi cities. These events were generally shrugged off by the markets although it likely contributed to higher energy prices for the quarter. While these issues didn't play much of a role in Q2 performance, they along with the Israeli/Palestinian and Syrian conflicts could certainly contribute to volatility going forward.

Our current market environment presents a classic dilemma for investors focused on the short term. Markets have steadily risen over the past 5 years, posting records along the way. The economy continues to show positive signs including lower unemployment, increased corporate profit, stabilization in real estate, and a willingness to accept reduced central bank support of low interest rates. Of course stock market bears point to the first quarter decline in GDP, rotation out of high flying small cap issues, and increasing volatility.

The reality is that the market never goes straight up and a decline of some kind is inevitable. However, the timing of the decline and subsequent recovery is impossible to predict. That's why we continue to counsel a long term focus of at least 5 years coupled with dollar-cost-averaging for cash to be invested that may currently be on the sidelines. Once summer is over and Wall Street returns to work we'll likely have a better feel for the remainder of the year.