

The third quarter was one of increased volatility in stocks but the S&P and Dow both managed to post gains despite closing down on the last day of the quarter. This marks the S&P500's longest winning streak since 1998 with seven quarters in a row of positive performance.

But the gains for the Dow and S&P500 do not tell the whole story of stock market performance as mid and small cap stocks along with international issues struggled in the quarter. While the S&P500 gained 1.13% for the quarter, the S&P MidCap index was down 3.98% and the S&P SmallCap index was down 6.73% representing a nearly 8% difference between the performance of large and small US stocks. It was a similar story for international as the MSCI EAFE index of developed country stocks was -5.88% and the emerging markets index was down 3.49%. The international declines have been further hurt by a rising dollar that has made relative performance worse on a dollar adjusted basis. So despite the headline news of the S&P500's continued winning streak, most stock markets were, in fact, down for the quarter(see graph).

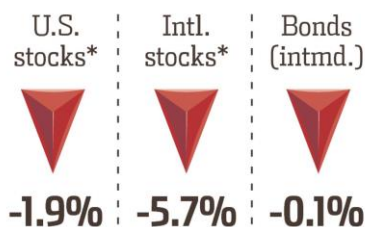
On the fixed income side, investors began to move into bonds as they sought shelter from the increasing volatility of the stock market. The Barclays Aggregate Bond index gained 0.17% for the quarter. In the high yield sector the BoA High Yield Master II index was up 1.51%. Despite fears of rising interest rates,

Index	YTD% 2014
Dow Jones Industrials	2.81
S&P 500 index	6.70
NASDAQ Composite	7.59
Russell 2000	-4.41
MSCI EAFE	-1.38
Barclays Agg Bond	4.10
Brent Crude	-13.71
CBOE Gold	-4.98

according to Morningstar, taxable bond funds have taken in a net of \$99 Billion so far this year while stock funds have only taken in \$3.1 Billion.

SCOREBOARD

Third-quarter fund performance, total return by fund type.



*Diversified funds only, excluding sector and regional/country funds

Source: Lipper The Wall Street Journal

So what's going on? Fortunately it's not a lot of any one specific thing. The Fed is so far standing pat on its accommodative stance toward interest rates while continuing to scale back their bond buying program that is scheduled to end this month. This has some feeling like stocks are becoming slightly less attractive. But the Fed has plenty of time to make a move to raise interest rates. Much feared inflationary pressure has, so far, failed to materialize. In fact, for some, low inflation (see consumer price chart) is cause for concern as it may signal weakening global growth.

Also notable is the dramatic decline in crude oil prices. Brent crude is down 13.71% for the year. The decline in crude prices to below \$90 per barrel is seen by watchers as signal of a possible slowdown in global growth. And crude is not the only commodity to see declines as gold and other natural resources are also down for the year.

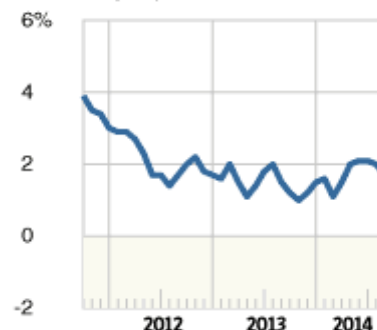
Geopolitical concerns were the primary news makers in Q3, both international and domestic. Guesome acts of terror by ISIS have unsettled many. And the United States re-entry into Iraq along with an air campaign in Syria has heightened fears of a full-fledged ground war despite promises to the contrary. Other issues include Russia-Ukraine tensions and citizen protests in Hong Kong. Finally the Ebola outbreak in West African countries has caused fear here at home with 3 cases being diagnosed in the US. While the direct impact of Ebola on the market is virtually non-existent, it does illustrate what role general sentiment can play in daily trading patterns.

From a domestic economic standpoint, unemployment rates have continued to fall, dropping to their lowest levels since the great recession of 2008. Second quarter GDP was very robust while Q2 housing data came in a bit lower than expected. Corporate fundamentals also remain strong. As of this writing the 4th quarter has gotten off to a pretty rocky start. It remains to be seen if this is simply a temporary pull-back or a more prolonged decline. We'll continue to keep you informed as events unfold.

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CONSUMER PRICES

Change from previous year, not seasonally adjusted



Source: Bureau of Labor Statistics