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Domestic stocks rose to new record highs despite geopolitical concerns and mixed economic data.

While the Fed continued to taper its bond-buying, the ECB introduced new easing initiatives, pushing global bond yields lower.

Domestic economic growth likely to accelerate in the second half as employment growth continues.

July 2014

Condor Capital Reviews 2nd Quarter 2014

After a rough start to the quarter, domestic stocks got back on track and reached record highs during the period. This rally came in spite of escalating geopolitical turbulence and mixed economic data here in the U.S. With that said, the S&P 500 Index managed to post a 5.23% gain in the quarter with notably muted volatility.

In the period, large-cap equities ruled the roost, while small-caps lagged as investors became more sensitive to their higher valuations. While growth kept pace with value in the large-cap space, value stocks outperformed in the mid- and small-cap arenas. Due in part to a rebound in oil prices caused by intensifying violence in Iraq, the energy sector outperformed. However, financials lagged as many banks continued to face scrutiny and penalties from regulators. Foreign stocks also posted gains, with emerging markets leading the way. To illustrate, the MSCI EAFE Index gained 4.33%, while the MSCI Emerging Market Index posted a 6.71% gain, led by the Indian stock market which surged after favorable election results.

Despite mixed economic data domestically, the Federal Reserve continued to taper its bond-buying program at a measured pace. At the same time, Fed Chair Yellen noted that the Board would likely keep rates low for some time given the current rate of inflation. Abroad, in a widely anticipated move, the ECB took further steps to boost growth, lowering its lending rate from 0.25% to 0.15%. Further, it imposed a negative rate on bank deposits held at the ECB, the first time a major central bank has taken such action. It also hinted that it could initiate a bond purchasing program akin to that of the U.S.'s quantitative easing in the near future.

After yields declined in the first quarter, surprising many investors, yields trended lower once again in the second quarter. Starting the period at 2.72%, the yield on the benchmark 10-year U.S. Treasury fell as low as 2.44% before rebounding to 2.53% at the end of June amid an uptick in inflation. The ECB's actions caused interest rates to fall in Europe as well, with government bond yields in troubled Italy and Spain coming in only slightly higher than U.S. Treasuries. In the fixed income sphere, credit spreads continued to trend towards multi-year lows as the Citi Corporate Bond Index gained 2.69% and the CSFB High Yield Index rose 2.41%. The Lipper Municipal Fund Index increased 2.94% on favorable supply/demand fundamentals.

Outlook – While the revised first quarter GDP reading of -2.9% is admittedly jarring, we do not feel that it portends a more ominous trend. That period was impacted by several transient factors, including harsh weather, lower inventory accumulation, and an expiration of extended unemployment benefits. Since then, gauges of economic activity and the labor market have improved, with total non-farm employment surpassing its pre-recession peak and the unemployment rate declining to 6.1%. Further, a boom in merger and acquisition activity, which is up 75% compared to the first half of 2013, signals increased CEO confidence as businesses have finally begun to deploy their record cash hoards. As such, we expect growth to resume its upward trend in the remainder of the year.

We maintain our constructive view on equities, though we note that continued earnings growth will be needed as significant multiple expansion is unlikely. Within our clients' portfolios, we have sought to boost exposure to value-oriented investments given our outlook for the business cycle, economy, interest rates, and equity valuations. Considering the current environment, we believe investors will become more discerning regarding company valuations over the intermediate-term. As for bonds, after a further decline in yields and tightening of credit spreads, investors should moderate their expectations for fixed income returns in the second half. With the upside for bond prices appearing limited, investors should expect more coupon-like returns going forward. Despite some recent fears of higher inflationary pressures in the U.S., we do not see significant inflation risk on the horizon as slack in the labor market will likely continue to constrain wage growth, a primary driver of secular inflation over multi-year periods.

According to the Bureau of Labor Statistics 2012 American Time Use Survey, retirees in 2012 spent 4.5 of their total 8 leisure hours per day watching television.

Retirement Myths and Realities

We all have some preconceived notions about what retirement will be like. But how do those notions compare with the reality of retirement? Here are four common retirement myths to consider.

1. My retirement won't last that long

The good news is that we're living longer lives. The bad news is that this generally translates into a longer period of time that you'll need your retirement income to last. Life expectancy for individuals who reach age 65 has been steadily increasing. According to the National Center for Health Statistics, life expectancy for older individuals improved mainly in the latter half of the 20th century, due largely to advances in medicine, better access to health care, and healthier lifestyles. Someone reaching age 65 in 1950 could expect to live approximately 14 years longer (until about age 79), while the average 65-year-old American today can expect to live about another 19 years (to age 84) (Source: National Vital Statistics Report, Volume 61, Number 4, May 2013). So when considering how much retirement income you'll need, it's not unreasonable to plan for a retirement that will last for 25 years or more.

2. I'll spend less money after I retire

Consider this--Do you spend more money on days you're working or on days you're not working? One of the biggest retirement planning mistakes you can make is to underestimate the amount you'll spend in retirement. One often hears that you'll need 70% to 80% of your preretirement income after you retire. However, depending on your lifestyle and individual circumstances, it's not inconceivable that you may need to replace 100% or more of your preretirement income.

In order to estimate how much you'll need to accumulate, you need to estimate the expenses you're likely to incur in retirement. Do you intend to travel? Will your mortgage be paid off? Might you have significant health-care expenses not covered by insurance or Medicare? Try thinking about your current expenses and how they might change between now and the time you retire.

3. Medicare will pay all my medical bills

You may presume that when you reach age 65, Medicare will cover most health-care costs. But Medicare doesn't cover everything. Examples of services generally not covered by traditional Medicare include most chiropractic, dental, and vision care. And don't forget the cost of long-term care--Medicare doesn't pay for custodial (nonskilled) long-term care services, and Medicaid pays only if you and your spouse meet certain income and asset criteria. Without proper planning, health-care costs can sap retirement income in a hurry, leaving you financially strapped.

Plus there's the cost of the Medicare coverage itself. While Medicare Part A (hospital insurance) is free for most Americans, you'll pay at least $104.90 each month in 2014 if you choose Medicare Part B (medical insurance), plus an average of $31 per month if you also want Medicare Part D (prescription coverage). In addition, there are co-pays and deductibles to consider--unless you pay an additional premium for a Medigap policy that covers all or some of those out-of-pocket expenses. (As an alternative to traditional Medicare, you can enroll in a Medicare Advantage (Part C) managed care plan; costs and coverages vary.)

4. I'll use my newfound leisure hours to _____ (fill in the blank)

According to the Bureau of Labor Statistics 2012 American Time Use Survey, retirees age 65 and older spent an average of 8 hours per day in leisure activities. (Leisure activities include sports, reading, watching television, socializing, relaxing and thinking, playing cards, using the computer, and attending arts, entertainment, and cultural events.) This compares to an average of 5.4 hours per day for those age 65 and older who were still working.

So how did retirees use their additional 2.6 hours of leisure time? Well, they spent most of it (1.6 hours) watching television. In fact, according to the survey, retirees actually spent 4.5 of their total 8 leisure hours per day watching TV.

And despite the fact that many workers cite a desire to travel when they retire, retirees actually spent only 18 more minutes, on average, per day than their working counterparts engaged in "other leisure activities," which includes travel.

*Note that the IRS and DOL have clarified that the term "marriage" does not include civil unions, registered domestic partnerships or "other similar formal relationships" **

For more information please review IRS Revenue Ruling 2013-17 and Notice 2014-19, and DOL Technical Release 2013-04.

**Source: Internal Revenue Notice 2014-19, April 21, 2014*

How the Windsor Decision Affects Retirement Plans

Spouses of employer-sponsored retirement plan participants have certain rights when it comes to the plans. Because of this, the legal definition of "spouse" is very important to both plan sponsors and plan participants in understanding how a retirement plan works.

On June 26, 2013, in *United States v. Windsor,* the U.S. Supreme Court struck down as unconstitutional Section 3 of the 1996 Defense of Marriage Act (DOMA). Section 3 of DOMA stated that the definition of marriage was limited to the union of one man and one woman. The *Windsor* decision means that federal law recognizes same-sex couples married under state law; same-sex couples are now able to receive federal benefits and protections that were previously afforded only to opposite-sex married couples. The decision does not, however, require individual states to recognize same-sex marriages.

Pursuant to the *Windsor* ruling, the Internal Revenue Service (IRS) and the Department of Labor (DOL) released guidance stating that same-sex couples married in a state where same-sex marriage is legal ("state of celebration") are recognized under federal law for tax and employee benefit purposes. What this means for qualified retirement plans is that spousal plan provisions are extended to same-sex spouses, even in states where same-sex marriages are not recognized, provided the marriage took place in a state that recognized same-sex marriage. In April of this year, the IRS issued further guidance to help retirement plan sponsors determine when the law officially applies (i.e., answering questions surrounding retroactivity) and whether plan documents need to be amended.

For Employers

Employers will want to take note of a few dates:

- **June 26, 2013:** Plans must recognize same-sex spouses of participants as of this date to reflect the *Windsor* decision.
- **September 16, 2013:** This is the first applicable date when the state of celebration rule must apply. The period between June 26 and September 16, 2013, is considered transitional--employers that recognized same-sex married couples only in cases where the participant was domiciled in a state that recognized same-sex marriages will not be treated as failing to meet the requirements.
- **The later of December 31, 2014, or the end of the plan's normal amendment period:** Any plan documents that currently have language that is not consistent with the *Windsor* decision (e.g., any documents that reference the definition of marriage in Section 3 of DOMA, specify recognition based on state of domicile rather than celebration, or are inconsistent with *Windsor* in any way) must be amended to comply with current law.

Note that not all plans will need amendments--those whose language is neutral enough to be consistent with *Windsor* will be in compliance, provided they operate in accordance with the new law as of June 26, 2013. In addition, employers may choose to adopt amendments recognizing same-sex marriages prior to June 26, 2013; however, the IRS cautions this may result in complications and "may trigger requirements that are difficult to implement retroactively ... and may create unintended consequences."*

Employers that previously extended benefits to domestic partnerships or civil unions may want to carefully consider the ramifications of any decisions made or amendments drafted that may cut back those benefits. For example, employers may choose to grandfather in couples who were covered prior to June 26, 2013, rather than remove their partner benefit provisions outright.

For Plan Participants

For you, a key issue revolves around beneficiary designations. Many married participants--in both same-sex and opposite-sex relationships--are not aware that their spouse is automatically their plan beneficiary. For this reason, participants might want to review their beneficiary designations to ensure that they conform with both their wishes and the law.

If the spouse is not the plan participant's desired beneficiary, then the spouse must waive his or her right in writing. For example, if you would prefer that your child be the primary beneficiary, then your spouse must sign a consent form waiving rights to be your primary beneficiary.

Divorce is another situation that should be considered, as same-sex spouses can now be covered under a qualified domestic relations order, which is a legal order documenting how retirement assets will be divided.

Other provisions that may be affected by the law include loans, hardship withdrawals, and annuity payments in retirement (depending on the type of plan and its terms). Participants considering taking money out of their plans for any reason may want to review the rules with regard to spousal consent or applicability to ensure they understand the requirements.

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Please remember to contact Condor Capital Management if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing, evaluating, or revising our previous recommendations and/or services. Please also advise us if you would like to impose, add, or modify any reasonable restrictions to our investment advisory services. A copy of our current written disclosure statement as set forth on Form ADV Part II A/B continues to remain available for your review upon request.

Why are you paying more at the pump?

Have you ever stood at the pump wondering why you're paying so much to fill up your vehicle? The answer is… complicated. According to the U.S. Energy Information Administration (EIA), many factors contribute to the cost of a gallon of gasoline, including the price of crude oil (which accounts for the majority of the cost), refining costs and profits, taxes, and distribution and marketing expenses.

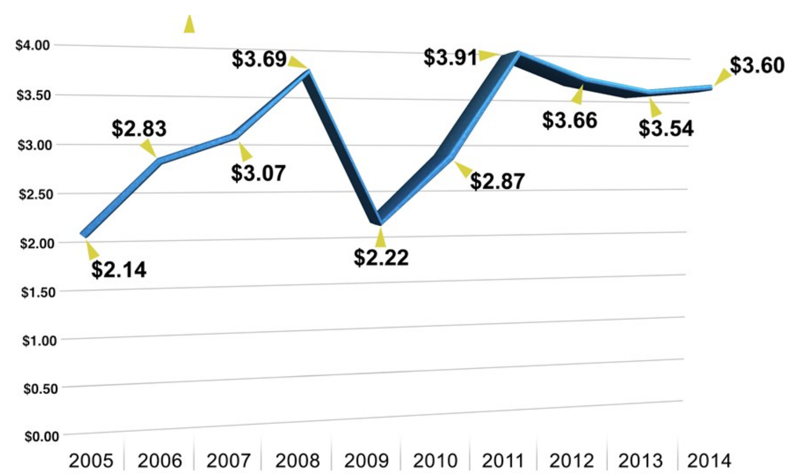
The price of crude oil is dependent on global supply levels relative to demand, and can be influenced by political events in major oil-producing countries, supply disruptions (which often result from hurricanes and storms in supply zones), and market speculation. Supply and demand is also one of the reasons that U.S. gas prices tend to fluctuate seasonally, with prices generally rising in the spring and remaining higher in early summer. But refining costs also play a role. Prices tend to rise as refineries shift from winter to summer gasoline blends in order to meet federal and state environmental guidelines. Gasoline must be blended with other ingredients to reduce emissions, and costlier ingredients are used in the summer blend.

How much you pay for gasoline also depends on where the pump is located and who owns it. For example, prices are generally highest on the West Coast due to higher state taxes and transportation costs from distant refineries. But no matter where you live, you know that prices also vary locally from one station to the next. Why? Generally it's because the cost of doing business for an individual station owner varies. The price the station pays for gasoline, the station's location and volume of business, and whether it must match or beat prices from local competitors all contribute to how much you pay for a gallon of gas.

What's the outlook for the future? The EIA expects the average price of gasoline to fall in 2015 to $3.39 per gallon. Despite the increasing demand from emerging economies, U.S. crude oil reserves and production are expected to increase, and U.S. demand is expected to decrease as vehicles become more fuel efficient.

Sources: "Factors Affecting Gasoline Prices" and "Short-Term Energy Outlook", May 6, 2014, www.eia.gov

Chart: Ten-Year History of U.S. Average Gas Prices



Gas prices fluctuated widely in 2008, peaking at a high of $4.11 during the second week of July, then plummeting to $1.81 by the first week of December. Since 2008, gasoline prices have generally been on an upswing, but have leveled off during the past three years, as this chart shows. According to the U.S. Energy Information Administration (EIA), average gasoline prices are even expected to decline slightly in 2015, although projections are far from certain.

Sources: Short-Term Energy Outlook, May 6, 2014, U.S. Energy Information Administration, www.eia.gov; Chart data is from the EIA's Weekly U.S. Regular Conventional Retail Gasoline Prices (chart shows average dollars per gallon as of the second week of May of each year).