

Market Update

March 31, 2014

Investment returns during the first quarter of 2014 were tepid. Equity Market indices like the S&P 500 (+1.3%), and NASDAQ (+0.5%) were up slightly while the Dow Jones Average (-0.7%) was down slightly. International indices for developed economies (EFA +1.7%) and emerging economies (EEM +3.9%) did better than U.S. equity indices. Fixed income markets, as measured by the yield on the 10 year U.S. Treasury Note, were almost unchanged as a slightly higher yield level (2.7%) was subtracted from the current return.

Within the equity market it was notable that no clear pattern emerged in regard to attributes that produced significantly above or below average returns for the quarter. In reviewing the price changes among companies we own and follow, I was able to compile a list of stocks that were up or down more than 10%.

Companies that were up 10% or more:

Caterpillar Tractor
Exelon
Novo-Nordisk
Starz
Teva
Union Pacific

Companies that were down 10% or more:

Amazon
Liberty Media
MasterCard
Meredith
Sally Beauty
Wisdom Tree Funds

Clearly, those prognosticators who foresaw 2014 as a “stock pickers” market have been correct to date. As to exogenous factors affecting investment performance, very cold weather in the U.S. during the first quarter seems to have had a very modest impact. Also, the geopolitical ramifications of Russia’s annexation of the Crimea have not caused broad reactions in markets other than in Russia itself.

Overall economic activity in the United States probably slowed during the first quarter to less than a 2.0% rate of expansion, partly due to the weather. Some, but not all of that slowdown, will be made up in subsequent quarters. The same can be observed about corporate earnings reports. Many companies experienced some weather related slow down which will likely be recouped later in the year.

Looking forward, we anticipate moderate economic growth, improving as the year progresses, and another positive year for equity market returns.

Raymond A. Beplat, CFA

Chief Investment Officer