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March 20, 2014

Dear Valued Investor:

Spring is a time of renewal. As this wonderful season approaches (and hopefully brings milder weather), we believe the stage is set for renewed growth in the U.S. economy.

The seeds of growth in the economy have taken root underneath all the snow and ice. Several recent data points underlie our optimism. The latest edition of the Federal Reserve's Beige Book, which is essentially a "window on main street," provided a positive assessment of the U.S. economy and still characterized growth as "modest to moderate," despite significant weather impacts. In fact, the word "weather" showed up 119 times in the report, far more than it appeared when SuperStorm Sandy struck in October 2012. Many Beige Book comments pointed to optimism once the weather normalizes.

Despite the slower, weather-affected start to the year, we continue to expect economic growth, as measured by real gross domestic product (GDP), to reach 3% in 2014, based upon many of the drags of 2013 fading, including U.S. tax increases and spending cuts and the European recession, and growth accelerating from additional hiring and capital spending by businesses. We expect some bounce back from the severe winter weather, propping up near-term growth as postponed economic activity takes place.

Additionally, underlying fundamentals in the labor market suggest that the job market may be thawing. Businesses are directing more of their profits into spending on growth, with the private sector creating 162,000 net new jobs in February, despite weather-related power outages and transportation disruptions. Initial claims for unemployment insurance fell to 315,000 during the week of March 7, a level last seen on a sustained basis in mid-2007, prior to the onset of the Great Recession. Hiring expectations by small businesses have been moving higher as tracked by the National Federation of Independent Business.

We believe that this better growth should provide the foundation for attractive stock market returns this year. Despite recent stock market volatility, primarily driven by ongoing concerns about the Ukraine conflict and slowing growth in China, the S&P 500 is still near its all-time high. As we look towards the remainder of the year, we continue to expect a 10 – 15% gain for U.S. stocks, as measured by the S&P 500 Index (based on earnings per share for S&P 500 companies growing 5 – 10% and a rise of half a point in the price-to-earnings ratio).

Of course, it's always important to be mindful of risks, despite the positive indicators in the economy and the markets. One of the most noteworthy right now is the conflict in Ukraine, which may continue to impact the U.S. markets after driving a more than 20% decline in the Russian stock market. Even following the secession vote in Crimea and sanctions imposed against Russia by the West, we believe it is unlikely that the conflict will drive a significant stock market decline in the U.S. Also, the slowdown in China, the world's second largest economy, is worth watching, though we continue to discount the probability of a "hard landing." We will be watching these geopolitical events closely as we continue to follow key economic indicators.

As we look to spring for renewed economic growth, and hopefully more potential gains for stocks, we believe the foundation is in place for you to pursue your financial goals in 2014. As always, if you have questions, I encourage you to contact your advisor.

Sincerely,

Burt White
Chief Investment Officer