DANN ASSET ADVISORS, LLC

Second Quarter 2014 Update

July 15, 2014

2Q14 Highlights

- Economy rebounds from weather-induced contraction in the first quarter
- U.S. stocks move higher with unusually low volatility
- For most of the quarter interest rates continue their downward trend
- International stocks, and emerging markets in particular, have a good quarter

The table below summarizes the performance of some key indices during the second quarter and year to date:

Market Performance		
Index	% Ch. 2Q14	% Ch. YTD
S&P 500	5.2	7.1
MSCI Developed Markets (excl US)	4.1	4.8
MSCI Emerging Markets	6.6	6.2
MSCI All Country World	5.0	6.2
US Aggregate Bond (1)	2.0	3.9
Liquid High Yield (1)	2.3	5.0
US Dollar Emerging Markets Bond (1)	5.0	9.1

(1) Barclays indices

Equities. The second quarter represented another strong period for U.S. stocks with the large cap S&P 500 index advancing 5.2%. This represented the sixth straight quarter of gains, the longest streak of positive quarters since 1998. The advance occurred with relatively light trading volumes and volatility at low levels not seen since 2007. In essence, the market gradually and quietly crept higher, with most of the gain coming in the back half of the quarter.

We believe the U.S. market had another good quarter for two reasons: 1) continued belief by investors that the Fed will keep rates low into 2015; and 2) generally good economic numbers released over the second half of the quarter. We believe the key issue for the market will be whether investors' faith in a continuation of economic improvement (with the prospect for increased corporate earnings) is strong enough to offset concern over what we view as the likelihood that interest rates head higher over the remainder of 2014. If the focus is on the economy and earnings, we believe the market can at least hold current levels. At the end of the quarter, the S&P 500 was trading at 16.8x projected 2014 earnings – a fair to full valuation based on historical measures.

Fixed income. Longer term U.S. interest rates continued to decline in the second quarter before rebounding a bit late in the quarter. Explanations for the decline include: 1) first-quarter economic weakness possibly being due to more lasting factors than just poor winter weather; 2) reduced bond issuance (supply) from the government; 3) even lower rates in other high quality government bonds, making U.S. bonds attractive on a relative basis; 4) geopolitical concerns (from Ukraine to Iraq); 5) pension funds buying Treasuries as they rebalanced portfolios following strong equity gains in 2013; and 6) the possibility that the Fed will continue with easy money policies longer than earlier assumed. Long term treasury bonds – as measured by the Barclays 20+ Year Treasury Bond ETF – returned 13.2% through the first half of the year, nearly doubling

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stock market returns.

General comment. In a more normal environment where the Fed was not actively keeping interest rates low, declining rates typically would indicate a weakening economy. Such an environment also typically would not see a rising stock market. As a result, 2014 to date has been unusual with declining rates and rising stocks (again acknowledging the Fed's having had an impact on both).

In our opinion, the economy is not as weak as indicated by interest rates over the first half of 2014, the trend of declining rates will reverse over the second half of the year and the stock market – rather then the bond market – is more accurately predicting upcoming economic conditions. This doesn't mean that after more than two years without a correction of at least 10% that the market won't go down; however, assuming our expectations for economic improvement are correct, we do believe that select individual stocks and market sectors can continue to do well.

Portfolio Positioning

Consistent with prior quarters, the fixed income component of most diversified (fixed income and equity) portfolios remains largely in investment grade, short duration (three years and under) corporate and municipal bond funds. For some clients we also have layered in small positions in a short duration, more aggressive bond fund in an effort to generate greater income. As stated above, we continue to believe that absent a significant negative geopolitical event, interest rates are likely to rise from current levels through the remainder of 2014. As a result, we remain focused on shorter durations for fixed income.

With respect to equities, the best performing broad U.S. market sectors during the second quarter were energy, utilities and REITs. Energy's performance was not wholly consistent with the more muted appreciation of other cyclical sectors; we believe at least part of the strong performance reflected geopolitical factors (Iraq, Ukraine) that have the potential to increase oil prices. The other two sectors were among the top three in the first quarter as well. As mentioned then, these groups typically perform well as interest rates are declining.

The worst performing sectors were financials, consumer cyclicals (retail, restaurants, etc.) and telecommunications. Money center banks are a large component of financials, and these did worse than expected in the Fed's stress tests. In addition, trading volumes and volatility were low in the second quarter, likely restraining the quarter's earnings. As during the first quarter, we believe consumer cyclicals were hurt by the weak economy; notably these stocks seemed to turn up as the weather improved in the spring. Telecommunications typically do well with falling rates; 2014 may be an exception as carriers compete more aggressively for mobile customers.

For most equity-only clients, during the second quarter we sold the stocks of a thermal imaging company, a medical devices and diagnostics manufacturer and a distributor of dental and veterinary products. We were not finding a lot of attractively valued new names in the quarter, but did initiate small positions in a pharmacy benefits manager and a company providing industrial test equipment and specialized sensors. Most equity-only accounts ended the quarter with roughly 5% in cash.

Economy

The U.S. economy contracted 2.9% in the first quarter, the first decline since the first quarter of

2011 and the biggest drop since the first quarter of 2009. A reduction in inventories (which had been built up in the fourth quarter of 2013), lower healthcare spending and bad weather were the main contributors to the decline. With better weather beginning in late spring, many retailers and auto dealers reported a bounce-back in sales. Housing, however, generally has not rebounded to 2013 levels. This is concerning to us but it's possible that record low mortgage rates and a plethora of investment-motivated buyers pulled demand forward in 2013, making comparisons for 2014 more difficult. The most recently released monthly housing numbers were much more favorable.

Consensus estimates call for U.S. GDP growth of 3%-4% for the just ended second quarter, helped in part by pent up demand stemming from activity deferred during late winter/early spring. More important, though, in our opinion, is what growth looks like over the remainder of the year and into 2015. We expect the second half of 2014 to show stronger and more consistent growth in the 3% range. While this type of growth is modest compared to past economic recoveries, it would compare favorably with the slow and erratic 1.9% growth of 2013.

In addition to the spring rebound in retail sales and recent, improved housing numbers, we note an observation from the Wall Street Journal that June represented the best five month stretch of job creation since 2006. While these jobs may not be the types of jobs that would be best for America to be creating long term, it is likely that a continuation of these trends will support better economic growth going forward. Recent comments by the Fed indicate (as usual) continued support for the economy.

With respect to other economies, the sluggish, uneven recovery that began in Europe in 2013 is continuing but with no substantial improvement to date. As a result, in June, the European Central Bank initiated additional measures to stimulate growth. We believe euro zone economies will continue to improve slowly and erratically over the course of 2014. China and Japan also have reported fluctuating economic numbers recently but as in most of the rest of the world, their governments and central banks also are committed to further stimulating growth.

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