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Market Commentary
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Overview

So far 2014 has been unexpectedly volatile due to a variety of different factors leading some to question if the US economy is slowing down or taking a temporary pause. US housing, employment, and consumer confidence data in the first quarter disappointed expectations which could be due to the exceptionally difficult winter experienced by most of the United States. This is the 6^{th} straight year of an equity rally, the second longest streak in US history, yet economic data has not been strong enough to support these results. In order for the rally to continue, we are looking for consumer data such as labor participation, confidence and spending to improve over 2014. With this volatility, Janet Yellen's first comments as Fed Chair gave no hints that the Fed would begin raising rates anytime soon causing the 10 year treasury rate to drop from 3% to 2.72%. Meanwhile there was also turmoil in emerging markets specifically the Russian annexation of Crimea and renewed concerns over China's ability to manage its burgeoning credit bubble. We still believe the US is growing and with an easy Fed we should continue to see solid equity market performance but expect the remainder of this year to be volatile leading into the fall elections.

Domestic Equity

Despite the disappointing economic reports, the S&P 500 still finished the quarter positive, returning 1.8% over the three month period ending 3/31/14. Many investors on the sidelines waiting for a market correction finally got their wish in January, as the S&P 500 fell 3.46%, the largest single month decline since May of 2012. We continue to believe we are still in the middle innings of an equity bull market, however for it to grow from here we will need sustained corporate earnings and stronger revenue growth led by an improving consumer. Many investors sold their more expensive growth stocks, for stocks with cheaper valuations, as value outperformed growth across all market caps. We continue to see outperformance in mid-cap stocks, which we believe, offer better upside potential than large-cap stocks with less volatility than small-cap stocks. Mid-cap stocks were up 3.53% over the quarter, outperforming large cap (Russell 1000) stocks by 1.48% and small-cap (Russell 2000) stocks by 2.41%.

International Equity

Although International Developed Equities lagged US Equities over the quarter, we continue to believe they are an attractive long-term investment due to their early stage within the economic recovery cycle and low valuations compared to historic figures. The underperformance vs. Domestic Equities can be largely attributed to Japan's lackluster growth after a strong 2013, causing the MSCI Japan Index to decline more than 5% over the quarter. Europe has surpassed expectations, with 4^{th} quarter GDP coming in at 0.3%, ahead of the consensus of 0.2%. On the other hand, Emerging Market equities, represented by the MSCI Emerging Markets Index, were down .37% for the quarter due to the political turmoil involving Russia and Ukraine and questions on China's banking process. The slowdown in China has also negatively impacted many multinational corporations, as they depend on Chinese imports. We still believe there is value within Emerging Markets but have a relative overweight to International Developed at this time. Frontier Markets were up 7.18% (MSCI Frontier Markets index) as they continue to be unscathed by the headlines within Emerging Markets, they are less dependent on foreign investments and they haven't experienced inflation.

Fixed Income

After a difficult 2013 where most fixed income markets were negative, fixed income markets rallied to start the year with the Barclays Aggregate index up 1.84%. With the volatility in the equity markets, investors made a flight back to the safety of fixed income investments. The 10 year treasury rate declined from 3.03% to 2.72%, causing the price of treasuries to increase, even though the Federal Reserve is following their stated course of reducing monthly bond purchases. We believe the movements in the fixed income market this quarter reflect short term trends and uncertainty which does not change our longer term outlook on an eventual rate increase in response to the slowly improving US economy. We keep our duration (the amount of time it takes to get paid back on your bonds) short which lowers the yield earned but also reduces the interest rate risk.

Alternatives
While 2013 saw equities rally over 32% and Fixed Income down 2% on average, our alternative assets generally had poor performance. We do not expect the alternatives to perform in line with the S&P500 when it is the leading asset class. As an example of how alternatives act independently from equities during times of volatility, in January the S&P was down -3.46% and our alternative asset classes had mixed performance. Master Limited Partnerships (MLPs) were up 0.59% (Alerian MLP Index). Market neutral strategies, represented by the Credit Suisse Long/Short Index was down -1.76%, performing as they are designed to by hedging some of the downside. Managed futures down -3.46% (Credit Suisse Managed Futures index) did not fare as well in the choppy market as most were positioned for a continued S&P rally. Some alternatives also provide benefits other than diversification such as MLPs which are investments in natural gas pipelines that distribute consistent yield around 5.5% (Alerian MLP index) and have the potential to increase in value based on the US energy renaissance.

Real Estate
Housing had a difficult quarter as home sales for both existing and new homes fell each month and the pace of price appreciation slowed. Housing starts declined each month but there's optimism for construction going forward as permits issued in February grew 7.7% month over month, well above expectations. Like the rest of the data out of the US, the impact of weather on the slowdown may not become clear until we see several more months of data. Also, like the equity markets, real estate may be playing catch up following a solid 2013 which saw home prices up more than 13%.

Conclusion
As we have previously mentioned in our market commentary, we are looking for outperformance in 2014 to be driven by the US Consumer. The economic data was not there in the first quarter due to many issues, most notably the harsh weather. Although we are generally optimistic on the US equity market we expect the rest of the year to have similar volatility to the first quarter. We remain cautious on the fixed income market, while the Fed's volatility is under control for now; previous hints at changes to the Fed easing and possible rate increases have sent shockwaves through the fixed income market. We stand by our core investment philosophy to incorporate alternatives as assets to protect the portfolio when both equity and fixed income markets are volatile.