The 2nd quarter was better than the first regarding stock market performance as investors attributed the 1st quarter economic weakness to inclement winter weather. Your accounts have returned_____% year to date (6/30/2014), which was similar to U.S. and global stock indices.

After a large run the last 5 years resulting in a recent high of 17,000 for the DOW Jones Industrial Average, one might wonder if a correction (greater than a 10% decline) is due for stocks. We are perhaps ripe for a correction in that we have now gone over 1000 days without one, the longest since 1,127 days ending in 1987. Probably the key to short term stock performance will be if corporate earnings meet expectations. Investors expect for profits to grow 6.4% in the recently ended 2nd quarter with an acceleration in profit growth in the 3rd quarter as the economy rebounds from the weak 1st quarter.

It is hard to predict the short term, but we are given comfort by the following regarding the longer term:

1. Even with the run up, there is little enthusiasm for U.S. stocks. Investors removed $15 billion from U.S. mutual funds in the 2nd quarter.
2. Stock market valuations remain in a fairly valued range at 15.5x expected 2014 earnings vs. an historical average of 16.5x. During periods of low to moderate inflation such as present conditions, markets have traded in the 18 to 19x range.
3. Although erratic, global economies seem to continue to recover from the Great Recession.
4. Consumer confidence is improving as jobs are added and consumer debt has been brought down to manageable levels.

5. Stocks remain attractive as yield plays vs. bonds.

What could negatively affect stock markets over the long term?

1. Economies could weaken causing earnings …to decline.
2. Political hot spots like Ukraine and Iraq could magnify.
3. Interest rates spike up higher than anticipated due to inflation concerns, although it appears that interest rates will gradually rise.

In summary, we would not be surprised to see a stock market correction but we cannot anticipate one. However, because of moderate valuations levels, we continue to expect positive real return performance for stocks on a multi-year basis. At this time, we are comfortable without our geographic distribution of stock holdings and will continue to buy the best opportunities no matter the location. In general, we are being less aggressive and more conservative in our stock selection.