The first quarter of 2014 was a consolidating period for stock markets after a robust 2012 and 2013. The S&P 500 appreciated +1.3% while foreign markets were similar. Your accounts returned_______% net of fees in the first quarter. Aside from consolidation fervor, markets were affected by slower U.S economic growth due to severe winter conditions, a slowing in China's growth rate, fears of interest rates rising and threats of war from Russia. I believe there is a good chance that the U.S economy gets back on track in the 2nd quarter as we head into spring, but market could trend lower as 1st quarter earnings are reported.

Although the bull market in stocks have now reached it's 5 year birthday, age in itself does not from a historical viewpoint give a clean indication of what the coming year will bring in returns. The U.S market seems reasonably valued at about 15X the expected 2014 earnings, which is in line with the historical average. Our hope is that a growing economy will produce rising corporate profits, which without P/E expansion would give us perhaps a 9% bump to stock prices. If investors become more confident of economic expansion, it is possible that they will increase what they are willing to pay for stocks with resulting P/E expansion and hence stock market appreciation. For instance, P/Es rising from 15 to 16x would result in an incremental 6.7% return. I have described the positive stock market scenarios, the negative would be that the global economy and profits falter or if interest rates rise rapidly. However, with stock markets reasonable valued, the long term outlook remains favorable for stocks.

Recently, the price of many of the high flying stocks (momentum stocks) have been hit significantly while slower growing high dividend yielding stocks have held up. To some degree, it is a trade based on investors fear levels about the economy, they become more conservative. In general, we do not own a lot of the momentum stocks such as Netflix, Facebook and Tesla to name a few, as we are value conscious. We do own Tripadvisor, Expedia, Tencent and Wirecard and, as of late, Giliead Sciences. When we bought these stocks they were not momentum stocks, but growth at the right price stocks. It is difficult to accurately assign target prices to sell when stock (companies) are experiencing accelerating earnings growth. As it has been difficult to find significantly undervalued stocks of late, I perhaps was too reluctant to sell. Particularly, Tripadvisor and Wirecard their prices got too far ahead of their earnings prospect and their stocks have had corrections. At this point, I hope their improving profit prospects will give us the opportunity to sell at a higher price again. However, as a value investor, I am uncomfortable when stocks I hold have become popular, which is now the case.

As I have mentioned previously, I have not felt the need to significantly buy European or emerging market stocks, although they are somewhat undervalued in terms of P/E multiples. I have also shied away from the commodity oriented stocks, even though they have underperformed.

In summary, I believe in our current low interest rate environment along with the prospects of continued economic growth and modest stock market valuations. We should continue to view stocks favorably in your portfolio. I will call you soon to set up an appointment as I believe the spring (renewal) is a good time of the year to discuss your investment needs.