CHART OF THE MONTH

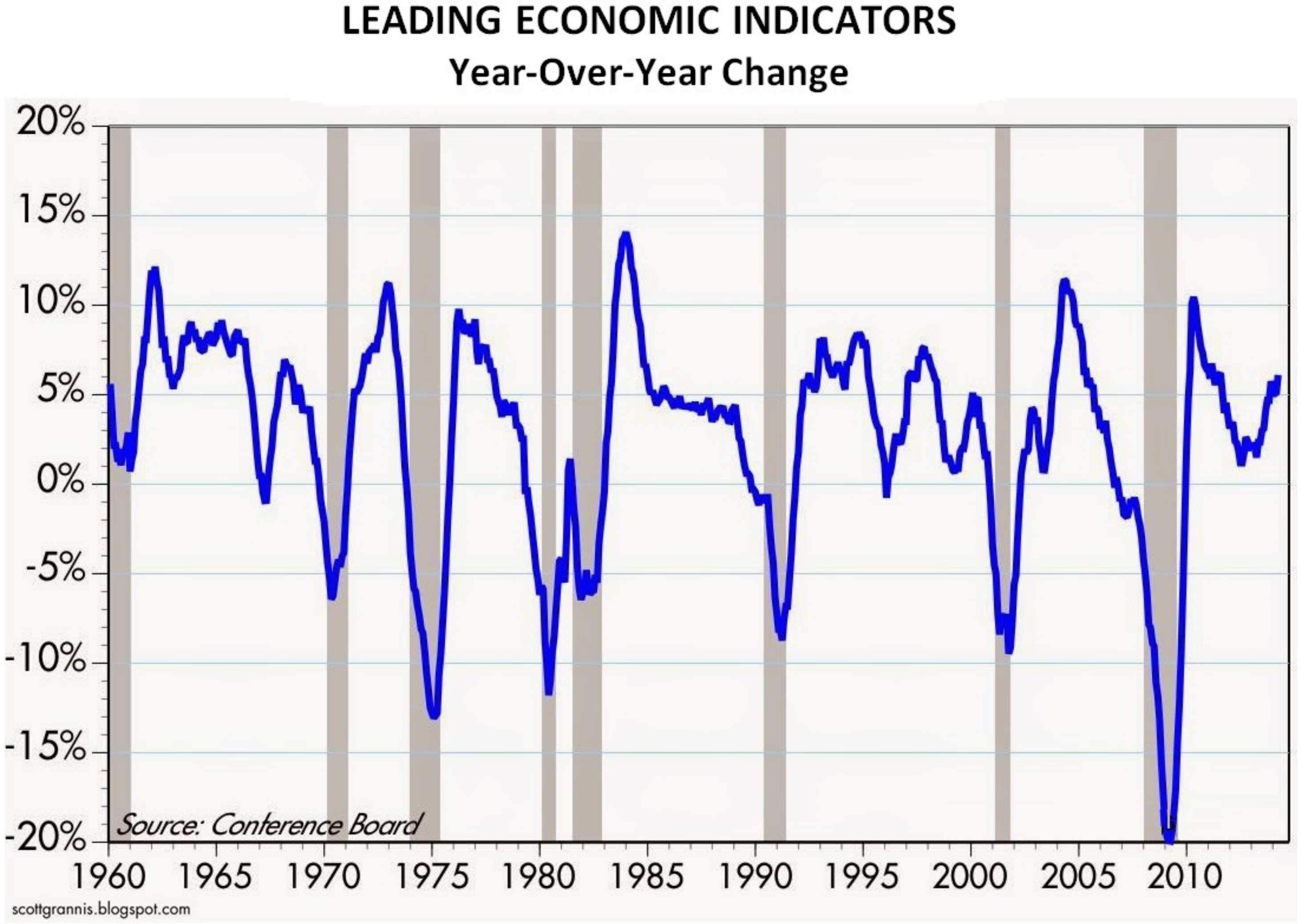
APRIL 2014

The U.S. economy, as measured by the Gross Domestic Product (GDP), nearly stalled during the first quarter, growing at a seasonally adjusted annual rate of 0.1%. The worse-than-expected results matched the second-weakest quarter of the nearly five-year-old expansion.

While disappointing, we believe the latest reading is an aberration and not representative of the underlying health of the U.S. economy. It is important to note that Q1 GDP was negatively affected by a combination of the adverse weather conditions last winter, a draw down in domestic inventories, and falling exports due to weakening demand in Europe and Asia. Although lackluster economic conditions abroad may linger, a reversal of the first two factors should positively impact growth in the months ahead. In fact, in its press release today, the Federal Open Market Committee indicated that “growth in economic activity has picked up recently.”

Furthermore, as shown in the graph below, the Leading Economic Indicators (LEI) are actually gaining momentum, suggesting quickening growth for the remainder of the spring and into the summer. The LEI advanced 0.8% in March, the third consecutive monthly increase. The annualized rate for the three-month period ended March 31 was 6.1%. This forward-looking measurement typically spikes during the early stages of a recovery, slows over time, and plunges in advance of and during a recession (highlighted in the graph by gray bars). We are encouraged by the reacceleration of the Leading Economic Indicators at this stage of the cycle.

In conclusion, we contend that the first-quarter pullback was no more than a temporary speed bump. Meanwhile, the stock market doesn’t appear to be overly concerned as the Dow Jones Industrial Average, which had lagged the broader market during the first quarter, closed at an all-time high today. Absent a recession or excessive valuation – neither of which appear to be an issue for the foreseeable future – we believe a portfolio of carefully chosen stocks will continue to reward those investors who can withstand the inevitable corrections along the way.



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