



Mid-Quarter Market Update

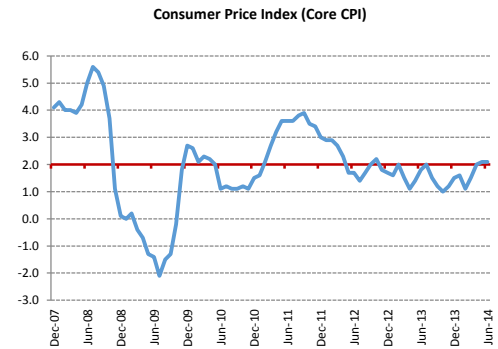
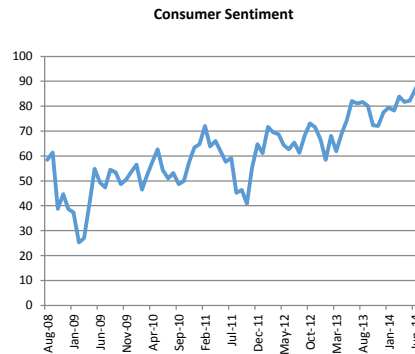
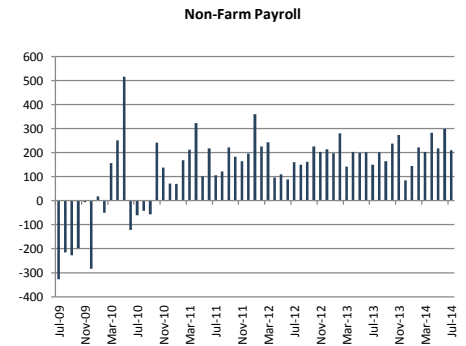
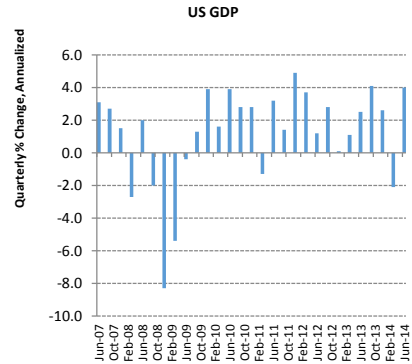
July 2014

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Economic Summary

- US economic growth rebounded in the second quarter. On July 30th, the Bureau of Economic Analysis reported gross domestic product (GDP) grew 4.0%, annualized, from the first quarter. Moreover, the first quarter decline was revised to -2.1% from -2.9%. With the improvement in the second quarter, many economists expect the US economy to grow about 2% in 2014.
- Job growth remains robust. The change in non-farm payrolls in July was 209,000. This is the sixth consecutive month of more than a 200,000 increase in jobs. The six-month average is 238,500. However, the unemployment rate increased slightly to 6.2% from 6.1% in June due to the fractional increase in the labor participation rate to 62.9% from 62.8%. An increase in the participation rate indicates more people have entered or returned to the labor market. The participation rate, which is a ratio of the total labor force as a percent of the working age population, has consistently declined since the last recession.
- The Conference Board's consumer confidence Index for July increased 4.5% points from June (90.9% vs. 86.4%). This is the highest reading for the index since December 2007. Consumer confidence has trended higher since the drop in October 2011 (40.87). Continued stability in consumer confidence is an important factor to consumer spending and ultimately economic growth.
- Retail sales for June increased 0.2% from May. This is the fifth consecutive month of a positive increase. On a year-over-year basis, the headline retail sales figure has increased 4.3%.
- Inflation concerns remain low, even though headline inflation has trended up the last few months. The Labor Department's Consumer Price Index report for June indicated prices increased 0.3% in the month and 2.1% since last June. Excluding the volatile food and energy segments, "core" prices increased 1.9% for the same period.
- Given the stability in the economic data, the Federal Open Market Committee (i.e., Federal Reserve) announced that it will "make a further measured reduction in the pace of its asset purchases." Starting in August, the Fed's aggregate purchase Treasury and agency mortgage-backed securities will be \$25 billion instead of \$35 billion. The Committee anticipates keeping the target fed funds rate below "normal" for a "considerable" time after its employment and inflation goals are met.

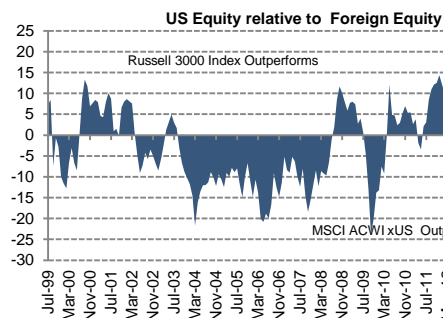


World Equity

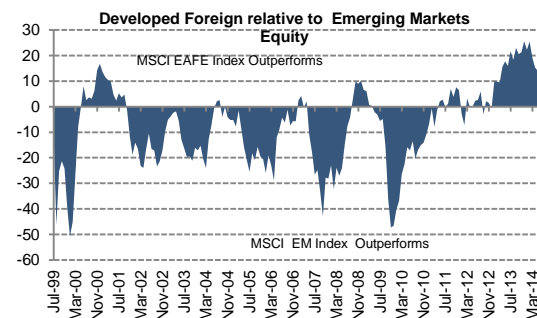
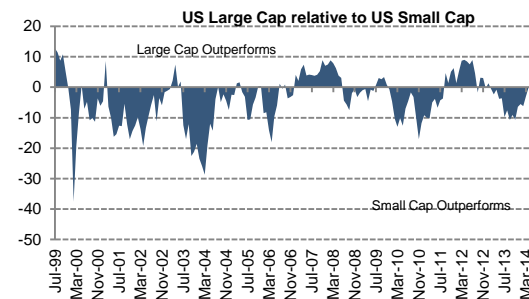
- Except for the MSCI Emerging Markets Index, equity performance was negative in July. The S&P 500 closed at a new all-time high of 1987.98 on July 24th before declining 2.9% over the last five trading days of the month due to concerns surrounding Russia, the expected timing of in Fed's change in interest rate policy, and weaker than expected economic data.
- Investor sentiment toward small cap turned sour in the month after favoring the sub-asset class the previous month. The small cap Russell 2000 Index returned -6.05% and trailed the S&P 500 by 467 bps after outperforming by 325 bps in June. This is the largest margin of underperformance since October 2009 (-493 bps).
- From a GICS sector perspective, only 4 of the 10 sectors in the S&P 500 Index outperformed the broad index and only 5 of the sectors in the Russell 2000 Index outperformed. Seven sectors in the S&P 500 were in the red compared to all ten sectors in the small cap index. Utilities (-6.8%) was the worst performer in the S&P 500, while Energy (-9.4%) was the worst performer in the Russell 2000. In both indexes Telecom Services was the best performer; +3.7% in S&P and -3.2% in Russell 2000.
- With the volatility in the equity markets, the VIX Index also fluctuated with changes in investor sentiment. After dropping to the lowest level since the end of the recession (10.32) on July 3rd, the index spiked on the last day of the month to 16.95 with the equity market selloff.
- Developed non-US equity performance, as measured by the MSCI EAFE Index, equaled the domestic, broad-cap Russell 3000 Index (-1.96% vs. -1.97%). For the second consecutive month the Pacific region outperformed Europe as Japan and Australia posted positive returns and European equity markets suffered due some disappointing macroeconomic data in addition to the escalation of tensions between Ukraine and Russia.
- For the third consecutive month, emerging markets outperformed developed markets. The MSCI Emerging Markets Index returned +2.02% in the month.
- Equity index valuations remain above historical averages, but most are not too extended (i.e., above the +1 standard deviation line). However, the price-to-sales (P/S) ratio is 'above the line' for the S&P 500 and Russell 2000 Index. Valuations for EAFE and EM are generally more attractive than domestic equity sub-asset classes.

July Returns

	Index		
	Value	Blend	Growth
Large	-1.70	-1.38	-1.53
Mid	-2.91	-2.95	-2.99
Small	-6.05	-6.05	-6.06
Morningstar Category Average			
	Value	Blend	Growth
Large	-1.83	-1.71	-1.53
Mid	-3.27	-3.54	-3.46
Small	-5.19	-5.46	-5.71



Long-term Asset Class Trends



Equity Valuation										
Index	Index Returns				Fundamentals					
	1M	YTD	1YR	3Y	Current P/E Ratio	P/E (N4Q)	Trailing P/E (20Y Avg)	Price-to-Book	Div YLD	EPS-G (next 3-5Y)
S&P 500 INDEX	(1.38)	5.66	16.94	16.84	17.45	16.16	19.34	2.63	1.95	8.69
S&P 100 INDEX	(0.60)	5.60	16.33	16.72	16.29	15.38	17.95	2.62	2.10	8.23
RUSSELL MIDCAP INDEX	(2.95)	5.46	16.36	16.36	21.70	19.50	21.50	2.65	1.56	10.05
RUSSELL 2000 INDEX	(6.05)	(3.06)	8.56	13.59	50.51	25.75	40.88	2.19	1.33	10.63
MSCI EAFE	(1.96)	3.08	15.55	8.45	18.21	14.92	28.17	1.64	3.39	8.60
MSCI ACWI xUSA	(0.97)	4.86	15.98	6.34	16.94	14.21	23.51	1.66	3.18	8.71
MSCI EM	2.02	8.46	15.72	0.74	13.37	11.87	14.52	1.58	2.71	8.85

Fixed Income

- ❑ The potential risk-averse investor sentiment from concerns surrounding the geopolitical risks in Eastern Europe and the Middle East did not manifest to offset the concerns to fixed income investors of a potential strengthening economy. As a result, fixed income performance was generally negative in July, with most of the price declines occurring at the end of the month.
- ❑ Treasury yield curve became flatter as the yield on the thirty-year declined and yields in the “belly” of curve increased. The largest increases were three- to five-year maturities. The ten-year yield remains low with a 2.56% at the end of July.
- ❑ The Barclays Aggregate Index returned -0.25% and outperformed the foreign investment grade fixed income index by 110 bps; the Barclays Global Aggregate ex US Index returned -1.35%.
- ❑ High yield underperformed investment grade corporates for the second consecutive month; Barclays US Corporate High Yield returned -1.33% versus -0.06% for the Barclays US Corporate Investment Grade Index.
- ❑ Bank Loans, as measured by the S&P/LTSA Leveraged Loan Index, returned -0.03% and outperformed the broad high yield market index. While retail investors have been redeeming from bank loan mutual funds, demand from institutional investors remains strong. According to S&P/LTSA, there was \$13.4 billion in CLO issuance (i.e., institutional demand) in July compared to \$1.7 billion in retail outflows.
- ❑ ‘Aaa-rated’ securities posted the best return (-0.01%) within the investment grade corporate sector.
- ❑ Municipal securities, as measured by the Barclays Municipal Index, returned +0.18% for the month. Municipals have outperformed (or equaled) the broad investment grade market index for nine consecutive months. A combination of attractive tax-equivalent yields and a ‘light’ supply contributed to price appreciation.
- ❑ Lastly, while inflation concerns are low for most developed markets, inflation-linked securities were positive and outperformed. US Treasury Inflation-Protected Securities returned +0.03% and outperformed the broad market. The Barclays Global Inflation Linked Index (-0.57%).

US Treasury Yield Curve

	Yield Change (in bps)		
	7/31/14 Yield	From 6/30/14	From 12/31/13
1M	0.00	-0.51	-1.01
3M	0.02	0.00	-4.56
6M	0.05	-1.52	-4.06
1Y	0.11	1.27	0.00
2Y	0.53	7.08	14.77
3Y	0.99	12.37	22.62
5Y	1.75	12.30	1.10
7Y	2.23	9.84	-21.78
10Y	2.56	2.74	-47.03
30Y	3.32	-4.31	-65.17

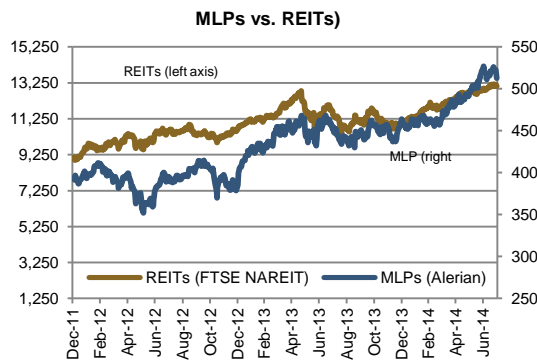
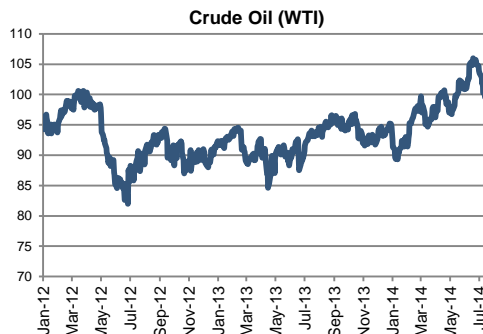
Fixed Income Characteristics

	7/31/2014			6/30/2014		12/31/2013	
	Yield To Worst	OAS (TSY)	Effective Duration	Yield To Worst	OAS (TSY)	Yield To Worst	OAS (TSY)
Bloomberg US Investment Grade Bond Index	2.20	36.97	5.86	2.08	33.64	2.37	38.76
Bloomberg US IG Corp Bond Index	2.98	105.81	7.04	2.88	103.80	3.25	119.82
Bloomberg US Treasury Index	1.61	3.88	5.89	1.50	2.84	1.62	3.50
Bloomberg USD High Yield Index	5.75	413.50	4.35	5.11	371.51	5.86	422.39
Bloomberg Global IG Corp Bond Index	2.38	94.96	6.18	2.33	93.41	2.73	106.33
Bloomberg USD Emerging Market Composite Bond Index	4.80	289.36	6.30	4.62	278.79	5.21	320.20
Bloomberg Global HY Index	5.34	398.20	4.14	4.80	356.99	5.53	403.86

Index	1 M.	YTD	1Y	3Y
Barclays US Agg Bond TR USD	-0.25	3.66	3.97	3.04
Barclays US Corp IG TR USD	-0.06	5.62	6.78	5.31
Barclays US Treasury TR USD	-0.16	2.55	1.99	2.38
Barclays US MBS TR USD	-0.59	3.42	4.14	2.29
Barclays US Treasury US TIPS TR USD	0.03	5.86	3.71	2.25
Barclays US Corporate High Yield TR USD	-1.33	4.05	8.19	8.58
Barclays Global Aggregate TR USD	-0.90	3.99	5.10	1.57
Barclays Gbl Agg Ex USD TR USD	-1.35	4.17	5.80	0.50
Barclays EM Local Currency Div TR USD	-0.96	5.70	6.36	2.58
S&P/LSTA Leveraged Loan TR	-0.03	2.57	4.53	5.37
Barclays US Corp Aaa TR USD	-0.01	5.91	5.35	3.67
Barclays US Corp Aa TR USD	-0.12	3.97	4.17	3.42
Barclays US Corp A TR USD	-0.06	4.88	5.84	4.81
Barclays US Corp Baa TR USD	-0.04	6.76	8.38	6.27

Real Assets

- Within the Real Asset category, performance was generally negative. REITs were the bright spot on a relative basis.
- Commodities faced headwinds in the month and underperformed many other asset classes in July. The Bloomberg Commodity Total Return Index returned -4.98%.
- In the commodity index, the best performing sector was Industrial Metals (+2.2%). Energy and Agriculture were the worst performing sectors in the index. Within Energy, WTI crude oil and natural gas declined 6.3% and -13.5%, respectively. Corn's -14.7% return and the -14.5% return for Cotton weighed results for Agriculture. With a return of +5.0%, Aluminum was a positive contributor to the outperformance for the Industrials Metal sector.
- Both of the precious metals, gold and silver, declined 3.1%. Year-to-date, both metals are positive after strong price appreciation in June. Through July, gold has appreciated +6.5%, which is approximately 170 bps more than silver.
- MLP's attractive yields were not enough to push prices higher during the month. The Alerian MLP Index returned -3.6%. However, the year-to-date performance still stands out with a double-digit return of +12.2%. With a dividend yield north of 5%, the yield for the Alerian Index is approximately 2.5x the dividend yield for the S&P 500 Index and about 2x the yield for Russell 1000 Value Index.
- Given the difference in performance between MLPs and REITs, investors were not solely focused on yield. The FTSE NAREIT Equity REIT Index was basically flat (+0.03%) for the volatile month.
- Within REITs, the Apartments sector was a top performer, the Hotels and the Mixed sectors lagged. Similar to the broader equity markets, REITs in the Emerging and Asia Pacific regions outperformed.



Index	Index Returns				Fundamentals					
	1M	YTD	1YR	3Y	Current P/E Ratio	P/E (N4Q)	Trailing P/E (20Y Avg)	Price-to-Book	Div YLD	EPS-G (next 3-5Y)
FTSE NAREIT EQUITY REIT INDEX	0.03	17.70	12.18	11.28	49.71	41.26	66.14	2.30	3.77	5.06
ALERIAN MLP INDEX	(3.55)	12.19	17.84	18.28	38.07	26.46	24.07	2.61	5.40	7.68