

Investment Review and Outlook – Spring 2014

We have enclosed your first quarter 2014 Schroeder Capital portfolio report. Also included is a “snapshot” of the current domestic economic environment and prospects for 2014 and into 2015. Finally, we review our overall investment approach to account management in today’s stock market environment, by contrasting the popularity of forecasting “the market” with time-tested fundamental securities research disciplines.

A more favorable picture of the US economic outlook is clearly emerging after months in which a number of industrial and consumer markets had been heavily affected by the long and difficult winter. The economy is again pulling its weight with a formidable increase in industrial production. Of particular note in recent weeks, we have seen the release of encouraging employment data with stronger job creation, fewer layoffs and an increase in average hours worked. Personal income and consumer sentiment have resulted in a solid uptick in spending that translated into much improved March retail sales. A modest recovery is also occurring in housing starts, rebounding from an inclement weather-induced pause during the early part of the year along with an increase in mortgage interest rates. From all indications, the Federal Reserve is also likely to hold off raising interest rates until 2015, and then quite gingerly, so as not to derail the continuing economic expansion. On balance, as memories of this past winter fade and warmer temperatures start to blanket the nation, a brightening business prospect appears to be emerging.

We suspect Gross Domestic Product was about 2.5% in the first quarter of 2014 and that the pace of economic activity will increase further in the months ahead to approximately 3.5% by yearend and into 2015. This firming should be helped by increased optimism, buoyed by improving job prospects translating into higher consumer spending, with strength in housing and auto demand. After years of postponement, business sector outlays for capital equipment, especially for computer hardware and software, along with replacement of business vehicles, should all help keep the overall pace of economic expansion advancing. However, we are also living with soft economies in Europe and a listless growth outlook in China, which could impact our economy as it relates to foreign trade. Finally, our outlook assumes no significant worsening in East-West relations, where Cold War era-type tensions have re-emerged and doubts persist over the future of the Ukraine and perhaps other neighboring countries in the region.

Meanwhile, the bull market’s staying power is being tested with several indices having experienced losses in a short span of time during early April. Stock market volatility has also increased of late, largely due to an uneven pattern in first quarter earnings reports. On balance, profits are a bit mixed, with some companies handily beating their targets, while others struggle to match lowered expectations. These irregularities are affecting a wide swath of U.S. industries. There has also been some noticeable deemphasizing of high priced growth companies, especially

in the social media arena, with a pronounced shift of assets seeking higher dividend yields and greater safety. This sort of rotation can be expected as security selection evolves during stock market cycles and as the quality of corporate earnings prospects is evaluated.

Despite popular emphasis on predicting overall stock market trends, Schroeder Capital's security research is very focused on analyzing industries and individual companies and evaluating their global prospects going forward. We remain steadfast in our disciplined approach of understanding corporate fundamentals, especially financials, and understand what we own vs. what might be popular. A key factor in this approach is how any selected security fits into a cohesive, well-diversified, customized global portfolio strategy for our clients, seeking not only growth but capital preservation.

Another important ingredient in our research process is assessing attractive entry points for new investments while establishing valuation criteria for more mature portfolio holdings. Over time, this comprehensive approach utilized by Schroeder Capital has proven to be more successful than being unduly influenced by "the market" or short term security price momentum.

As we have mentioned in the past, we ask that you always keep us abreast of changes in your financial outlook so we can take that into consideration as we manage your account. Also, if you would like us to review any other accounts you may have that we do not manage, either a retirement account from a former employer, a personal trust account, or even help you evaluate a family member's account, please give us a call.

Kindest personal regards,

G. Frederick Schroeder, CFA
President and Chief Investment Officer

June 17, 2014