



Dear Friends:

July 2, 2014

2nd Quarter 2014 Recap

The U.S. economy continues to grind upward. Despite the weather induced GDP contraction in Q1, data continued to indicate moderate growth. Employment continues to improve and wage growth is beginning to occur. New Home Sales reached their highest level since 2008. Across the pond the Eurozone remains intact and emerging markets have stabilized (for the time being).

Investors focused on the above positive indicators and shrugged off the anemic GDP numbers and geopolitical issues in Ukraine and Iraq. This resulted in stock prices flirting with all-time highs in Q2 2014 and now continuing into Q3. Additionally, confidence was strong with bond investors eagerly continuing to buy U.S. Treasuries and bonds of risky companies resulting in positive returns. In all, Q2 was positive for investors in all respects.

Index	Index Close	Quarter Price Return (%)	12 Mo Price Return (%)
S&P 500	1,960.23	4.69%	22.04%
DJIA	16,826.60	2.24%	12.86%
NASDAQ	4,408.18	4.98%	29.53%
Barclays Aggregate Bond	109.40	1.38%	2.04%
MSCI Europe-Australasia-Far East	68.37	1.74%	19.32%
MSCI Emerging Markets	43.23	5.41%	12.29%

The recession is five years in the rearview mirror and things do not seem nearly as scary. The Fed's tapering will be coming to an end this fall, and there will be heightened focus on the Fed's massive \$4.5 trillion securities portfolio run off, as well as the timing of future interest rate increases. Albeit, the consensus is that the Fed is likely to keep monetary policy very accommodative.

All these aforementioned factors seem to be built into the markets creating a somewhat complacent environment (with low volatility) for the investment community. The NY Times reported that this environment is being referred to as the "Everything Boom" quite possibly, the "Everything Bubble." Around the world, nearly every asset class is expensive by historical standards. While investors are benefitting, we need to be aware of the inherent risk this presents. Locust Capital stresses remaining disciplined about diversification and re-balancing, when appropriate, to address this risk.

We hope you all enjoy the summer and take time to spend with family and friends- that is what life is all about. As always, we hope to have an opportunity to meet with many of you in the coming months.

All the best,

Locust Capital Management, LLC