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Third Quarter 2014

"The Euro Crack'd"

This year's taper tantrum, perhaps better described as a tightening tantrum, erupted in the third quarter and shock waves continue to reverberate through global asset markets in October. Currency markets were upended, the volatility catching participants by surprise, as trading volumes had waned in recent years. The US Dollar rallied 6.7% against a basket of its trading partners' currencies. The Euro was notably weak, dropping 8.0% during the quarter vs the Dollar amid signs of slowing economic activity, weakening inflation pressures and political disharmony on the continent. Selling then spread to commodities and equities as investors, including the International Monetary Fund, recalibrated their global growth expectations downward. As a result, US Treasuries rose and interest rates declined (as they have all year), in marked contrast to last year's tantrum and most expectations voiced at the start of 2014 regarding rates and inflation, including ours. As we write, the ten year US Treasury Note yields 2.08%, and the Germans and the French are offering 0.77% and 1.23% for the same maturity, respectively. A sample of global index performance is shown in the table below, where we have included year to date returns in Euros to emphasize the attractiveness of US Dollar assets to European investors.

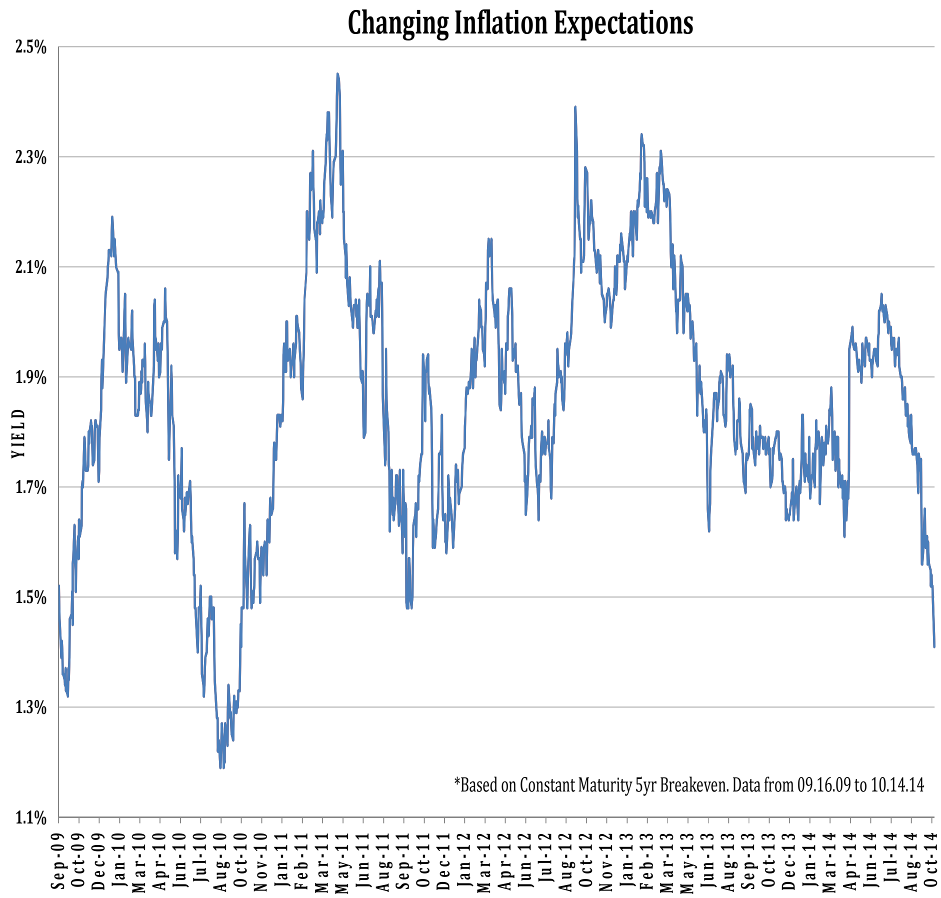
Index	**Third Quarter** *(US Dollars)*	**Year to Date** *(US Dollars)*	**Year to Date** *(Euros)*
iShares US Treasury: 20+ Year	3.20%	16.46%	27.16%
S&P 500	1.13%	8.34%	18.30%
MSCI All Countries World	(2.16%)	4.22%	13.80%
SPDR Barclays High Yield Debt	(2.36%)	2.89%	12.35%
MSCI Emerging Markets	(3.38%)	2.56%	11.98%
NIKKEI 225 Index (Japan)	(0.92%)	(3.47%)	5.48%
Russell 2000 Index (Small Caps)	(7.36%)	(4.40%)	4.38%
S&P GSCI (Commodities)	(12.46%)	(7.46%)	1.04%
DAX Index (Germany)	(11.12%)	(9.23%)	(0.82%)

Total Returns. Sources: BlackRock®; Bloomberg

It feels odd to be investing in a time when monetary authorities are trying so hard to promote inflation. For thirty-five years, since the time of Paul Volcker and Jimmy Carter, inflation has been the enemy. Today central banks have meager 2% Consumer Price Index goals they cannot seem to meet, and the bond market, historically an accurate predictor of inflation expectations, sees no chance of the Fed reaching its goal before the end of this decade. The graph on Page 2 shows the expected annual inflation rate through 2019 has collapsed again in the last 3 months, a familiar pattern since the crisis. In addition, key commodities (priced in US Dollars) keep dropping as economic indicators in Europe and China disappoint. For example, oil closed at $106.50 per barrel on June 25th - recently it traded briefly below $80.00. This month, many hedge funds were forced to unwind levered bets on oil, rising interest rates, energy stocks and MLPs, adding to the dislocation.

Having engineered the closest thing to escape velocity in the developed world, the Fed may have become a victim of its own success. Raise rates too quickly and investment capital decamps for better returns in the US, slowing recovery among US trading partners. Delay rate rises for too long and market participants lose confidence in the US recovery or asset prices get too frothy. We think the Fed will err on the dovish side, keeping rates lower as necessary to support both consumer confidence and the long term unemployed. For now, most investors are waiting for signs that various stimulus programs in Europe, along with a weaker currency that would boost exporters, are taking hold. Other tools available include fiscal and regulatory reform - stranger things have happened. Italy's cabinet just approved an 18 billion euro (US $23 billion) tax cut for 2015, the largest in the history of the Italian Republic, according to Prime Minister Matteo Renzi.

On the plus side, uneven global recovery has produced more buyers of long dated Treasuries than one would have thought as the Fed seeks to shrink its massive balance sheet. In addition to nervous foreign investors attracted to our relatively high yields, there are pension plans that have recovered enough since 2009 to dial back equity risk in favor of matching their long term liabilities with fixed income assets like US Treasuries. Finally, US households do benefit from lower commodity prices, and the housing market gets a lift from lower mortgage rates. We are old enough to remember the words of John Connally, Secretary of the Treasury under Nixon, addressing a group of European finance ministers: "The Dollar is our currency and your problem."



Robert G. Scott
Chairman & CEO

David H. M. Baker, CFA
Chief Investment Officer

Special Note to our Clients and Friends: We are pleased to announce three new hires in the areas of manager selection, customized reporting and portfolio management, and fiduciary services.

E. Douglas Huber, VP and Senior Research Analyst, will add to our existing due diligence and manager selection efforts. He will focus on analyzing and constructing portfolios of hedge fund, private equity, separate account and mutual fund managers for clients of the Firm. Doug has a BS from Babson College, is a CFA Level III candidate, and brings a high level of energy and accomplishment to our platform.

Willard Schoch has joined as a Portfolio and Reporting Analyst. Will joins us from BNY Mellon's Alternative Investment Services unit, where he was a Senior Associate within the Complex Accounting and Administration Group. He was responsible for a variety of reconciliation and customized reporting tasks. Will has both a BSBA in Business Administration and an MBA from Northeastern University.

JonPaul McBride, a Trust and Estate Specialist, joins us from Cumberland Trust and Investment Company in Nashville, where he was a Trust Administrator. JP was responsible for a host of tasks relating to the administration of revocable, irrevocable, and charitable trusts. He has a BA from Yale University.

Source of table on first page: BlackRock and Bloomberg
Source of graph on second page: Bloomberg
Source of data not specifically cited: Bloomberg