objectivity²

WEALTH MANAGEMENT

of

RAYMOND JAMES®

2014 Market Commentary

Year Ahead Outlook

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Objectivity[2] Wealth Management's

Top Themes for 2013:

- Defensive vs. Offensive Strategies acknowledging that sometimes the best defense is a good offense
- Global Equities with Dividend Growth
- Long/Short Equity Managers that can be Tactical
- Fixed Income managers favoring Corporate over Sovereign Debt and short vs. longer duration
- Larger Allocations to Alternative Asset Managers that are unconstrained
- Gold as a hedge against political uncertainty and competitive currency devaluations
- Focus on Risk Adjusted Returns vs. Benchmarks

Top Themes for 2013: A Brief Look Back

Defensive vs. Offensive Strategies

Grade: A+

Equity markets surged in 2013, largely supported by continued accommodative monetary policy and record high profitability for the corporate sector. For the first time in 5 years, more defensive strategies such as fixed income, cash and precious metals were penalized, which lead to negative real returns in those asset classes. This thinking led us to significantly reduce our exposures to fixed income and precious metals in the March and May timeframes ahead of significant sell-offs in both asset classes.

Global Equities with Dividend Growth

Grade: B

While the Equity markets in most developed economies across the globe experienced strong gains, it was more of a momentum driven expansion (P/E multiple expanded from 14x to 17x) that favored growth companies over those more focused on returning capital to investors. That being said, dividends have accounted for nearly 40% of S&P 500's total return over the last 50 years, and thus positions this strategy as a core long term holding.

Long/Short Managers that can be Tactical

Grade: B

Being short stocks in 2013 was not a profitable strategy. However, our long/short manager was able to provide a 16.7% return, with a 45% net equity exposure. As investors who focus on risk adjusted returns, the ability to deliver meaningful upside returns while providing protection against the ever increasing possibility of a market dislocation or meaningful correction.

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Top Themes for 2013: A Brief Look Back

Larger Allocations to Unconstrained Alternative Asset Managers

Grade: A

Going into the year our Alternative allocation was overweight to a manager with fixed allocations to precious metals, natural resources and US Treasuries. Early in 2013, we transitioned to a more dynamic, unconstrained manager with defensive qualities but with ability to capture more upside in a positive market environment. Our original manager finished the year down roughly -3%, while the unconstrained manager had gains of just over 10%.

Gold as a Hedge Against Uncertainty

Grade: F

For the first year in over a decade, Gold had a negative year (-28%) due largely to reduced geo-political tensions, benign inflation levels and the opportunity cost of being left out of the equity markets. Fortunately, while we missed the call, we were able to significantly mitigate the negative impact to our portfolios by following our technical analysis thereby reducing (and eliminating for our more conservative portfolios) our positions with Gold trading at roughly 1550/oz.

Focus on Risk Adjusted Returns vs. Benchmarks

Grade: B-

Risk seems to be a forgotten four letter word. Volatility as measured by the VIX was reduced to levels last seen in 2007. At the same time, Margin debt increased, to levels last seen in 2000 and again in 2007. It reminds us of one of our favorite Warren Buffet quotes: ***"The less the prudence with which others conduct their affairs, the greater the prudence with which we should conduct our own affairs."***

Objectivity² Wealth Management's

Top Themes for 2014:

- Continue to recognize that sometimes the **Best Defense is a Good Offense**
- The 30 year downward trend for Interest Rates is Over….What Next? **Fixed Income offers little to no Risk/Reward for most investors**
- Allocate to areas that can provide **non-correlated returns to equity markets** without taking on meaningful interest rate risk
- The Fed's exit from unprecedented monetary stimulus will not be smooth, thus **causing increased volatility across Capital Markets**. Our fundamental investment thesis is still unchanged**…Be Disciplined and Be Tactical.**
- **Path of least resistance** for the equity markets is higher. Our mantra is to take what is given but **don't add incremental risk in order to chase returns.**
- The **biggest surprise is likely to be on the upside** (i.e. coordinated global growth with equity market returns meaningfully above the consensus)

2014 Thoughts & Themes

Is Good News Good for the Markets?

The overwhelming consensus for 2014 is as follows:

- *The economic back drop is the best since the Credit Crisis ended in 2009 and GDP Growth accelerates to 3% with the possibility of 3.5-4% (surprise to the upside)*
- *Corporate Spending finally picks up as companies transition from expense reduction to investing for future growth, to sustain record high profitability levels*
- *Consensus earnings are 8-10% higher in 2014, placing the EPS at $117-120. If you take earnings of $117 and apply the historical P/E multiple of 16 you get a S&P target of 1872 (2% higher) and at the current P/E multiple of 17.25, you get a target of 2026 (10% higher).*
- *Negative headline events subside (EU monetary collapse, US fiscal cliff, China's hard landing, Obamacare etc.)*
- *Central banks continue to practice loose monetary policies (tapering is not tightening)*
- *Fund Flows become increasingly positive for equities as investors shift from fixed income and low yielding cash moves off the sidelines. We attribute this to an increase in investor confidence as the memories of 2008 are washed away by the strong equity market returns over the last 2 years.*
- *In a world where capital is looking for a home, US equity markets slightly above their long run historical P/E average of 16, seems a logical place for capital to flow. The path of least resistance for equities seems higher.*

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2014 Thoughts & Themes

Is Good News Good for the Markets?

So… Is it all Quiet on the Western Front? Given our contrarian ways we'd be remiss not to point out some additional food for thought:

- *Coordinated global growth leads to returns meaningfully above market consensus. The $64k question is can interest rates and equity markets go higher in unison?*
- *Whenever there is an overwhelming consensus that something is going to happen, usually the opposite happens. As evidence, look to the latest Institutional Investor Poll, which has hit an extreme with the Bull share up to 58.2%, while the Bear camp has remained at its lowly 14.3% level (see chart on next page). Even the correction camp has receded to 27.5%. As such we ended 2013 with the Bull/Bear Spread at it's widest level of 43.9%.*
- *The VIX index, a measure of market volatility, is trading at its lowest level since 2007, signaling an extremely high level of complacency*
- *The Fed is attempting to unwind from unprecedented monetary stimulus and to assume they pull that that off seamlessly, seems naively optimistic. A reminder that change happens at the margins.*

Objectivity² Wealth Management's

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Portfolio Manager & Strategist Interviews

Michael Shaoul (Marketfield)

- *We look back on 2013 in an effort to determine market performance for 2014. Michael Shaoul, Chairman & CEO of Marketfield Asset Management offers his view of the road ahead and he says equities should continue their climb higher next year. Sectors he likes include consumer discretionary, tech, and materials. Shaoul also says don't rule out some buying among the laggards such as homebuilders and materials.*
  - *http://watch.bnn.ca/#clip1061386* *(click to view)*

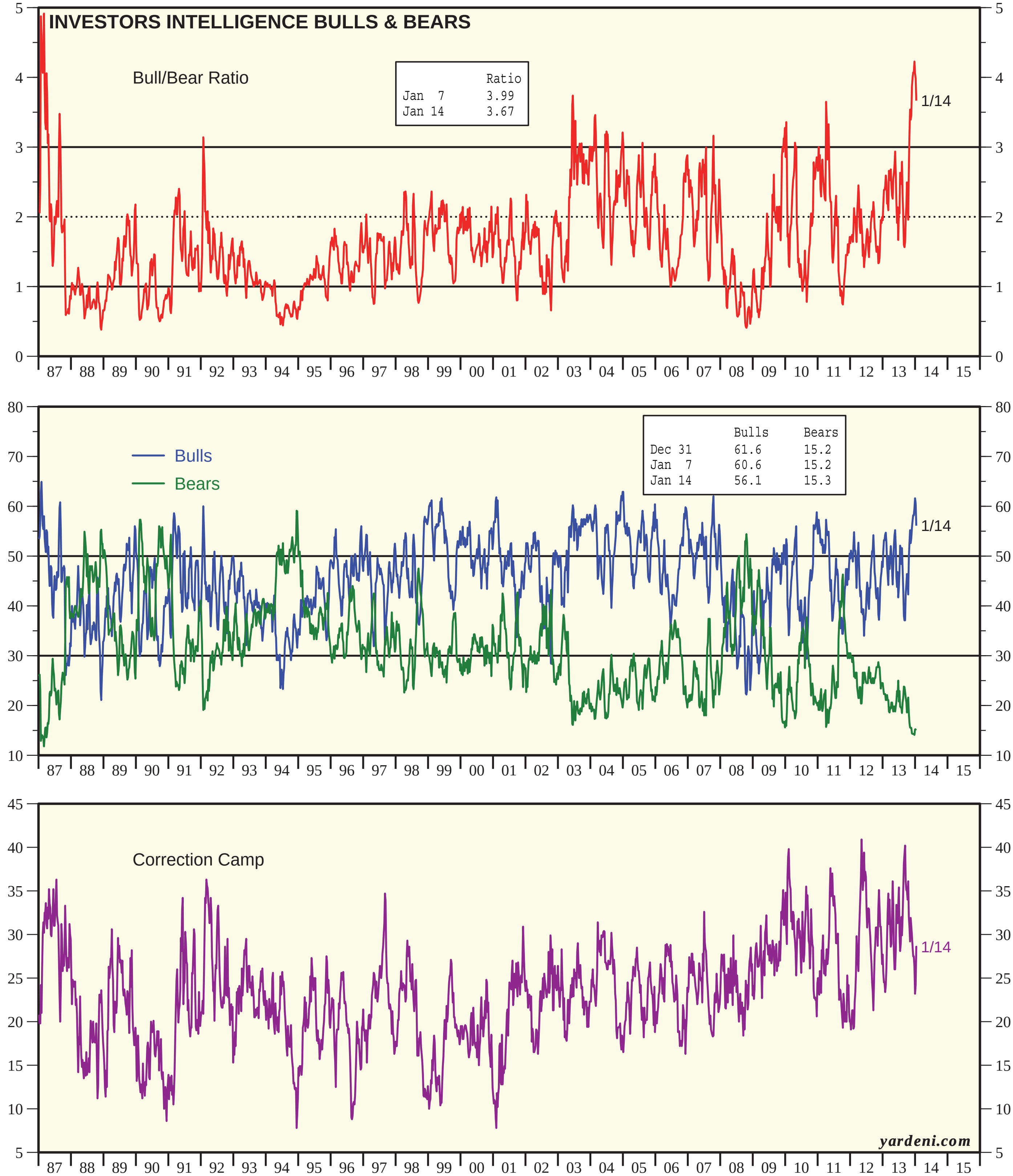
David Rosenberg (Gluskin Sheff)

- *Financial Thought Leader David Rosenberg is predicting a generational investment shift. The influential Chief Economist and Strategist at Toronto-based wealth management firm Gluskin Sheff recently reversed course on his long standing deflation and bullish bond theme. He believes Federal Reserve Chairman Ben Bernanke's fight against deflation is working and that we are already seeing signs of inflation emerging and the economy strengthening beyond what most on Wall Street expect. He explains his new call and why investors should be making some proactive changes to their portfolios now.*
  - *http://www.youtube.com/watch?v=E5vNoqX3og4&feature=youtu.be* *(click to view)*

Ed Hyman (ISI Group) & Bill Miller (Legg Mason)

- *Two investing legends come together in an exclusive television interview this week! ISI Group's Ed Hyman, Wall Street's number one ranked economist for 34 years running, is joined by Legg Mason's history-making portfolio manager Bill Miller to discuss their top investment forecasts and strategies for 2014.*
  - *http://www.youtube.com/watch?v=ty21-crRj1g&feature=c4-overview&list=UUW9B1PJwennxYi5Fk_94Lew* *(click to view)*

Figure 1.



Source: Investors Intelligence.

“The essence of investment management is the management of RISKS, not the management of RETURNS.”

-Benjamin Graham, Legendary Value Investor

We manage risk within a global asset allocation framework (within min/max ranges across the various asset classes) and overlay tactical adjustments through the use of 50, 150 & 200 Day Moving Averages.

-Objectivity² Wealth Management

Objectivity² Portfolios: Overview & Strategy

Low Volatility Allocation

***Current Allocation:* 25% Equity, 20% Fixed, 45% Strategic, 10% Cash Alternatives**

Benchmark Allocation: 15% Equity, 60% Fixed, 25% Cash (Dow Jones Conservative Index)

Target Net Return: ***CPI + 1%***
(projected 3-5% annualized over 3 years)

*Our goal with this portfolio is steady growth of capital with a **primary focus on capital preservation and risk mitigation**. We view this portfolio as an investment alternative to low yielding CDs and short term bonds, for our clients' most conservative pools of capital. Last year we **increased our equity target from 15% to 25%, in multiple investments tranches throughout the year.** We maintained our tactical overweight to our long/short equity manager over our dividend paying, global equity manager to help mitigate equity market volatility. We **reduced our Fixed Income exposure in half to 20%, in May of 2013 (with the 10 YR Treasury at 1.85%)** as we firmly believe the 30 year bull market in bonds has come to an end and traditional fixed income offers very poor risk/return characteristics for the foreseeable future. The **Strategic/Alternative allocation** is built to be the anchor of the portfolio and should not be highly correlated to either the equity or fixed income markets. **This allocation held steady at 45%** and is overweight our absolute return manager versus our fund of funds manager that provides access to some of the best minds in the hedged alternative space. We provide liquidity and an additional volatility hedge by allocating **10% of the portfolio toward cash alternative strategies** that utilize ultra short duration municipal paper, seeking to provide returns in excess of traditional money markets & CDs.*

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Objectivity² Portfolio Overview & Strategy

Moderate Allocation

Current Allocation: 47.5% Equity, 15% Fixed, 37.5% Strategic

Benchmark Allocation: 60% Equity, 35% Fixed, 5% Cash (Dow Jones Moderate Index)

Target Net Return: CPI + 3%
(projected 5-7% annualized over 3 years)

*This portfolio is built to balance our views on capital preservation and growth, and is an alternative to the traditional “60/40 Balanced” portfolio you will see on almost all investment platforms at other advisory firms. The **target equity allocation was increased again in the 4th Quarter of 2013 to 47.5% (from 45%)** and is a blend of 15% passive strategies, designed to track equity markets in a low cost vehicle, and 32.5% in Opportunistic Equity managers. This active sleeve is overweight a long/short manager to help lower some of the market risk and also has allocations to a global dividend fund and a tactical equity manager, that has a long track record of investing in levered companies. Our **Fixed Income allocation remains at 15%,** which represents a **significant underweight to the benchmark of 40%.** Our **Strategic/Alternative target allocation slightly decreased to 37.5% (from 40%)** as we took unallocated capital and added it to our tactical equity manager. This sleeve of the portfolio is overweight our absolute return manager versus our fund of funds manager that provides access to some of the best minds in the hedged alternative space.*

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Objectivity² Portfolio Overview & Strategy

Growth Allocation

Current Allocation: ***63.5% Equity, 0% Fixed, 36.5% Strategic***

Benchmark Allocation: *80% Equity, 15% Fixed, 5% Cash (Dow Jones Moderately Aggressive)*

Target Net Return: ***CPI + 5%***

(projected 7-9% annualized over 3 years)

This allocation is built to provide our client's with the most growth opportunities, while still adhering to our risk management philosophies. The ***Equity allocation was increased to 63.5% in the 4th quarter of 2013 (from 60%)*** *and is a blend of 15% passive strategies, designed to track equity markets in a low cost vehicle, and 48.5% in Opportunistic Equity managers. This active sleeve is comprised of 3 managers, with a slight overweight to the long/short manager and tactical equity manager investing in levered companies, over the global dividend equity manager.* ***Our Fixed Income allocation remains at 0%,*** *as we continue to believe the risk/return forecast for the asset class is now very bleak and does not represent either a good hedge against market volatility nor an opportunity for capital appreciation. The* ***Strategic/Alternative allocation*** *is built to be the anchor of the portfolio and should not be highly correlated to either the equity or fixed income markets.* ***This allocation was reduced to 37.5% (from 40%) as we sold our remaining Gold position in November 2013 due to technical & fundamental weakness.*** *The remaining dollars in that sleeve continue to be allocated primarily to an unconstrained absolute return manager that seeks to provide risk-adjusted returns in excess of inflation, with a smaller position in a fund of funds manager that provides access to some of the best minds in the hedged alternative space.*

Disclaimers

The views in this commentary do not take into account the particular investment objectives, financial situations, or needs of every individual client.

Investments are subject to market risk, including possible loss of principal. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risk are greater in emerging markets.

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Commodities are volatile investments and should only form a small part of a diversified portfolio. There may be sharp fluctuations even during periods when prices are rising overall. The price of gold has been subject to dramatic price movements over short periods of time and may be affected by elements such as currency devaluations or revaluations, economic conditions within an individual country, trade imbalances, or trade or currency restrictions between countries. As a result, the market prices of securities of companies mining or processing gold may also be affected.

The S&P 500 is an unmanaged index of 500 widely held stocks. It is not possible to invest directly in an index.

Dividends are not guaranteed and can fluctuate.

Past performance does not guarantee future results. There is no assurance that these trends will continue.

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Alternative investment strategies involve greater risks and are only appropriate for the most sophisticated, knowledgeable and wealthiest of investors.

Technical Analysis is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume.

Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity.

Asset allocation and diversification do not ensure a profit or protect against a loss. Investments are subject to market risk, including possible loss of principal.

The Consumer Price Index (CPI) is a measure of the average change in consumer prices over time of goods and services purchased by households; it is determined monthly by the U.S. Bureau of Labor Statistics. Investors cannot invest directly in an index.

P/E is the price of the stock divided by its earnings per share.

VIX is the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. The VIX is a widely used measure of market risk. Gross Domestic Product (GDP) is the annual total market value of all final goods and services produced domestically by the U.S. The charts above are for illustrative purposes only.