WIMMER ASSOCIATES

QUARTERLY REPORT

VOLUME 12, ISSUE 2 MAY 2014

A LETTER FROM KATHY

Dear Friends:

The first quarter of the New Year brought good cheer to investors, as all but one of the major market indices proceeded to advance into positive territory. The year began with the fear that the U.S. would not be able to steer clear of another stalemate over the budget and the lifting of the ceiling on the debt limit. Fortunately, calmer heads prevailed with a bi-partisan budget compromise that will fund the government through September 30, 2015. Similarly, the debt ceiling debate was resolved, ending skittishness in the Treasury markets. This restored investor confidence that the United States' financial obligations would continue to be met without fear of delay or default.

Based in beautiful California, where seasons are considered optional, we are nonetheless mindful that the balance of the country sustained what a Bostonian would call a "wicked" winter. Half the country shivered from the "polar vortex" and the Great Lakes looked like Antarctica. While the stock market weathered the Arctic blasts with equanimity, the weather took its toll on construction, housing sales and the nation's productivity as measured by GDP. We view these negatives as transitory and envision sunnier prospects for markets and the economy, as spring brings consumers out of their heated homes into the malls.

Sector rotation is emblematic of investing in the first quarter, as cash inflows into equity funds vastly outpaced investments in the fixed income bond market; Various factors included momentum (momentum breeds momentum), frustration with stubbornly low returns on fixed income securities, and, perhaps waning memories of the Global Financial Crisis of 2008. We are also seeing a rotation from classic growth stocks like technology and biotechnology along with the simple rebalancing of sector positions that, perhaps, have appreciated too high and too fast. For example, healthcare, especially biotechnology, reached new

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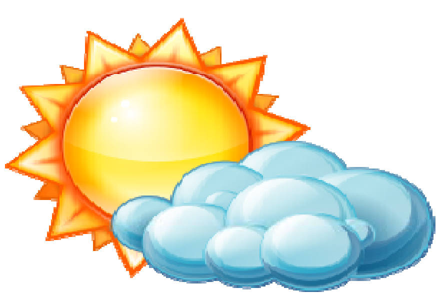

KEY FACTS FOR 2014

- *Annual gift exclusion $14,000*
- *Estate, gift and generation-skipping tax exemption $5,340,000*
- *Highest marginal estate tax rate 40%*
- *IRA contribution limits $5,500, plus another $1,000 for those over fifty*
- *SIMPLE IRA and 401(k) contribution limits $12,000, plus another $2,500 for those over fifty*
- *401(k) contribution limits $17,500, plus another $5,500 for those over fifty*
- *SEP IRA contribution limits 25% of compensation, max of $52,000*
- *Top Federal tax rate is 39.6% on income over $406,750 (single filers)*

INSIDE THIS ISSUE:

A Letter from Kathy (continued from page one)

all-time highs in the first quarter, only to see a hard and fast price correction in the early days of the year's second quarter. It seems that investors are reconsidering the wisdom of billion dollar market valuations on early stage drug development companies that have no revenues and are potentially years away from receiving FDA licensing approval. We welcome the biotech pullback. It offers a better opportunity to invest in quality companies with approved drugs and growing revenues, while at lower valuations.

The following commentary will provide greater detail as to developments in markets and the economy during the first quarter and then will venture a few more thoughts on where we might go from here. As always, we welcome your comments and suggestions and look forward to our next meeting.~

Cordially,

Kathy Wimmer, CFA, CIC
President

First Quarter of 2014

With the exception of the Dow Jones Industrial Average, all the major indices rose during the first three months of the fiscal year. The pace of the stock markets' appreciation has slowed compared to last year's substantial gains in broad markets. It is normal for the market to take a breather after a quick ascent. Moreover, "corrections", i.e., the decline of 10% or more in the price level of a market index, might be expected as we are well into the fifth year of recovery from the Global Financial Crisis (GFC). Noted market pundit, Josh Brown, writes that we have seen "an average of one 10% or more correction roughly every 20 months (since WWII), but this average does not mean they're evenly spaced out." Brown further adds that market corrections do not occur like clockwork and most often are seen "in the context of a secular bear market cycle."

As we are in a bull, and not a bear market, we should not hold our breath awaiting an imminent market correction despite having reached new all-time highs in the broad-based S&P 500 Index. As Nobel laureate in economics Mr. Robert Shiller says, "There is no way to predict the future."

The technology-laden Nasdaq Composite Index slowed its rapid climb during the first quarter, but still managed to eke out a positive 0.50% return for the three months ended March 31, 2014. As we've noted above, investors, including many large institutional managers, began a rotation out of "growth" stocks that offer potentially greater earnings in the future and into more mature "value" stocks that offer tangible cash flows from existing product sales. Consequently, a number of technology stocks fell into disfavor in the quarter. This rotation is also reflected in the Initial Public Offering (IPO) market, where positive sentiment has waned and recent new offerings either have been pulled or initial offering prices have been discounted in order to spur demand.

According to S&P Capital IQ, "Revenues will continue to be in focus for the first quarter as a true measure of corporate health. Currently, analysts anticipate top-line growth to come in at +3.2%. This is the first time since the second quarter of 2012 that analysts expect sales growth to outpace bottom-line results. Despite the upward trend, this is still a persistently low number, which shows that corporations are continuing to streamline and cost-cut their way to growth each quarter. Expectations for the second half of the year are slightly better at +4% for the third and fourth quarters."

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FIRST QUARTER OF 2014 (CONTINUED FROM PAGE TWO)

With 75% of companies having reported first quarter earnings to date, analysts are projecting that the earnings growth rate will approximate 3% per annum. This is perfectly respectable considering the consumer remained bundled in last year's products rather than venturing out into the polar vortex to try on spring outfits or look for new housing. Total retail sales for the first quarter of 2014 rose a modest +2.5% compared to the same period in the previous year. Corporate earnings would also have been higher if financial companies had fared better. The wave of refinancing of old mortgages has crashed onto the shores of higher interest rates leaving mortgage originations floundering. On the bright side, commercial loan growth grew +3-5% during the first quarter, which could indicate a reacceleration in the economy going forward. Banks have reduced their charge-offs to pre-financial crisis levels.

Benchmark WTI crude oil climbed +4.5% from the previous year's level to $101.57 per barrel at March 31, 2014 while natural gas prices jumped +11.1% in the same period settling at $4.48 per BTU as cold weather increased heating bills and dampened production. Copper prices fell -11% in the first quarter compared to last year as China's economic slowdown affected demand for the industrial commodity. Gold prices fell to $1295 per ounce at March 31, 2014 from $1600 an ounce in the same time last year. Gold has lost some of it recent shine, as many investors have grown more confident in the global economy and no longer are seeking refuge from fragile financial markets.

While the latest unemployment rate dropped to 6.3% in April from 6.7% in March of 2014, the participation rate, the percentage of working age persons who are employed or unemployed and looking for employment, fell to 62.8%, which is at the lowest level seen since 1978. Compounding concerns over unemployment, the economy only grew by +0.1% in the first quarter of 2014 March compared to a +2.6% increase in the fourth quarter of 2013. It is clear that the harsh winter took its toll on employment and productivity. We expect the economy to reaccelerate in the balance of the year.

Housing has been in a slow recovery over the past five years and pending home sales in March of 2014 were down -8% from a year earlier. The latest Case-Shiller home price index shows that prices in 20 metropolitan areas rose +12.9% at the end of February 2014 compared to the same period last year. The Commerce Department reports that new home sales declined -13.1% in March of 2014 compared to a year earlier. Clearly, more than poor weather is at play as higher home prices, higher interest rates and student loan overhang prevent first-time buyers from entering the housing market. Wage growth will be necessary for the housing market to rebound to affordable levels for many would-be purchasers.

Manufacturing: While the Institute for Supply Management (ISM) index reported in March that manufacturing growth slowed for the month with a reading of 53.7 (anything below 50.0 indicates an economic contraction), the April report rebounded nicely with a solid reading of 54.9. The latest numbers reflect growth in 17 of 18 manufacturing industries with non-metallic minerals being the sole outlier. The March and April ISM indices are retrospective indicators but also appear to signal a pickup in economic activity boding well for forward months.

The Federal Reserve has not changed its easy or "accommodative" monetary policy and continues to taper its purchases of long-term Treasury bonds and mortgage backed securities as previously announced. Fed Chairman, Janet Yellen, has indicated that the economic recovery is subpar and the Federal Reserve must remain supportive to keep the recovery moving forward.~

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We strive to optimize our clients' financial well being by coordinating investment decisions with other professionals in the fields of taxation and estate planning.

LOOKING FORWARD

"It's tough to make predictions, especially about the future."

-Yogi Berra

Both the U.S. and global economies are growing, albeit at a tepid pace. The recovery in southern Europe remains a concern and any further escalation of tensions between Russia and Ukraine could send the old Continent into recession, as trade would be dampened through increased sanctions. The United States continues to benefit from an energy renaissance, which is making domestic manufacturing more competitive than many foreign made goods. Unemployment continues to improve slightly in the United States, although mostly because workers are dropping out of the workforce for reasons of retirement, disability or simple frustration in not finding suitable employment prospects. Housing was vexed by foul weather in the first quarter and hopefully will improve in the balance of the year. Higher home prices and interest rates will continue to limit buyers' appetites for new housing and increased student loan obligations may keep first-time buyers out of the market. The Federal Reserve has indicated that short-term interest rates will remain low through the balance of the year and into 2015. This will provide ample liquidity for commercial borrowers as banks look to offset decreased mortgage lending as the recent refinancing wave recedes from its boom period. With headline inflation running at an annual 1.1% rate, there is no impetus for the Federal Reserve to tighten the monetary supply by driving interest rates higher.~