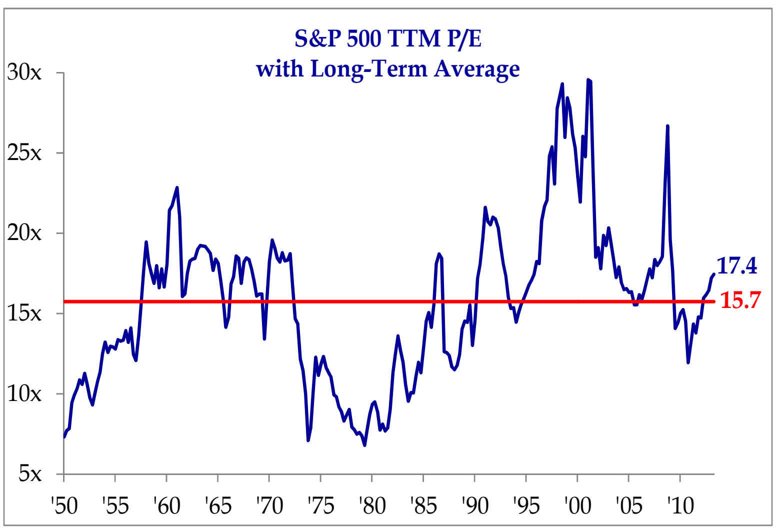
QUARTERLY REVIEW AND OUTLOOK

BACK TO NORMAL – WHATEVER THAT IS . . .

The 30% appreciation in the overall U.S. stock market in 2013 was driven by a recovery in investor sentiment more than expectations of a great economic or corporate profit improvement. In fact, corporate profits only rose approximately 5% last year. Thus, the vast bulk of the gain reflected improvement in equity valuations back to the historical long-term average (Chart 1).

Chart I



Source: Strategas

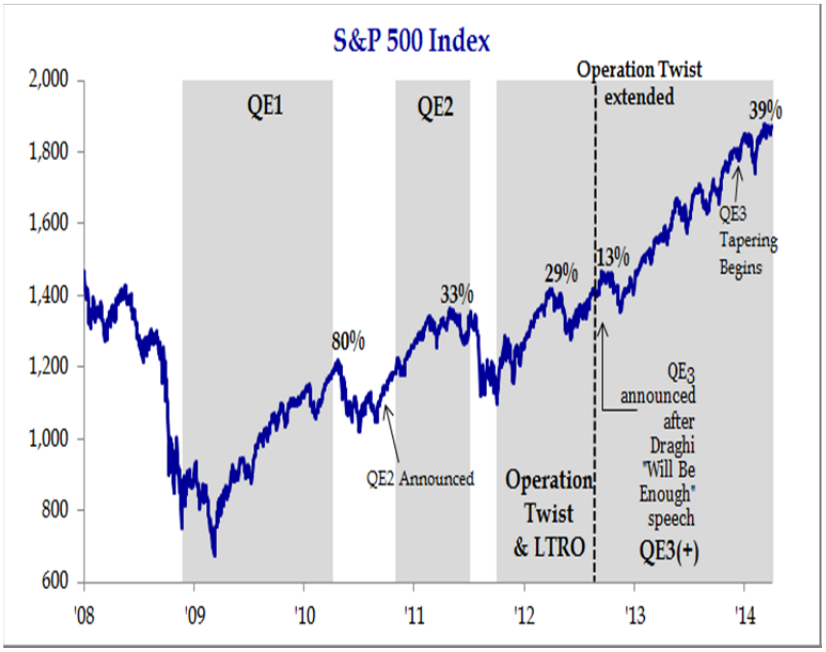
The problem with looking at an average is that market valuations never really stay constant for long. Indeed, looking at Chart 1 since 1950, every time the "current average p/e" crossed above the long term average line, the valuation continued to expand. This could suggest that better valuations may be in store in the intermediate future. However, for that to occur, we will probably need to see a *global* economic expansion, relatively benign domestic interest rates and inflation levels at or below 2%. This kind of economic scenario is not likely to emerge until the second half of 2014 at the earliest.

t: 516.439.5100 f: 516.439.5102
111 Great Neck Road, Suite 310, Great Neck, NY 11021
t: 800.259.1331 t: 615.620.3900 f: 615.620.3920
112 Westwood Place, Suite 210, Brentwood, TN 37027

www.kingspointcap.com

One of the critical factors favorably impacting the U.S. (and foreign stock markets) in recent years has been quantitative easing by the Federal Reserve in the U.S. and their counterparts in many developed foreign countries. (Chart II)

Chart II



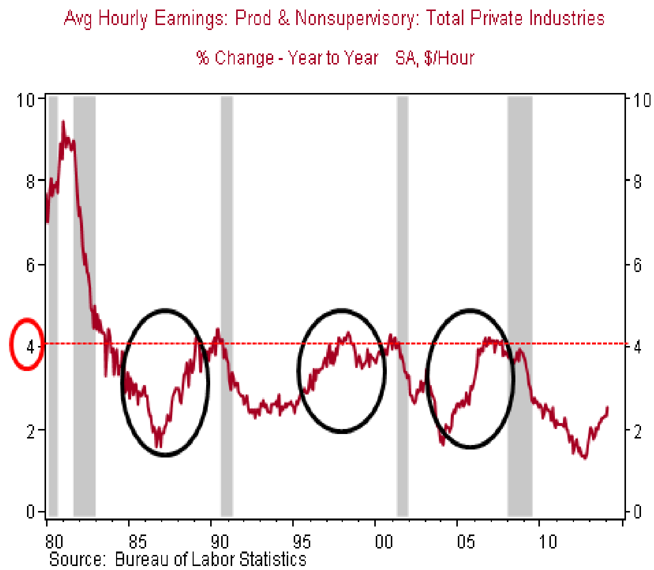
Source: Strategas

We believe that the impact of quantitative easing and the resultant sustained downward pressure on interest rates has had a significant positive impact on global equity prices. Additionally, this is particularly true in 2013 when equity valuations reached levels normally seen during low interest rate and low inflation periods. Importantly, the improvement in investor sentiment was probably the catalyst for the valuation recovery. This reflected an increasing expectation that the U.S. and global economic trends were returning to more normal patterns of growth.

With a return to normal valuations, the market is also more likely to demonstrate normal patterns of volatility in the future. This was obvious in the first quarter of 2014. Simplistically, this suggests that market volatility is likely to intensify as we near the end of the stimulus to financial asset valuation. There are a number of signs from corporate America that would confirm this trend. Merger and acquisition activity has increased. This probably reflects the expectation that asset prices and the cost to finance acquisitions may rise in the next few years. Secondly, much of corporate America has locked in long-term, low interest rates in their debt structure.

Economic progress can also be seen in accelerating demand for temporary employees. This should lead to an accelerating trend in permanent employment as business outlook improves. We expect when permanent employment accelerates, wage pressure should intensify as we move to a full employment market (Chart III). This may take another 12-24 months. However, the trend is moving in that direction.

Chart III



Perhaps the biggest question yet unanswered is whether GDP growth can achieve 3% or more in 2014 (or sometime in the near future). While many economists are forecasting 3% plus GDP growth in the second half of the year, the fixed income market is not anticipating upward pressure on interest rates near term.

Over the longer-term, the expectation for interest rates remains biased to the upside. Unfortunately, the market is giving no indication as to when this might occur. In the first quarter, while many predicted a 50 basis point increase in the 10-year yield (UST), the yield actually declined 40 basis points to a low of 2.60%. This unexpected move lower in rates has benefited most portfolios in the short-term, but has made that portion of the fixed income market less attractive at the present time. As such, we continue to highlight state-specific municipal opportunities for each client and utilize high-yield debt instruments where appropriate. While not too exciting on an absolute basis, we are actively positioning the fixed income portfolio to achieve an attractive, relative level of return in a market where there is “no free lunch.”

Our current outlook for the U.S. equity market is flat to up 10% this year. We suspect the bulk of the projected gain is likely to occur in the second half of the year as economic acceleration begins to impact overall corporate expectations. We also expect to see continued volatility as the equity markets begin to reflect a more normal pattern going forward. The momentum of the Federal Reserve reduction in quantitative easing and the level of interest rates should continue to add to volatility in the future. However, while there may be more volatility in the months ahead, we urge all investors to stay the course. Our companies are well positioned with great products, management teams, and financial metrics to drive positive returns in this increasingly volatile environment. We highlight a few noteworthy changes below.

Portfolio Strategy

We continue to look for opportunities to add a new name to our core portfolio. This recent pullback in the market gave us an opportunity to fill out positions in both Thermo Fisher Scientific and CBS. Each possesses the characteristics we seek in great long-term investments. Both companies are focused on enhancing shareholder value and both use return on invested capital as a critical metric to measure success.

One of our long time positions is Newell Rubbermaid. We view the company as very attractive at current levels despite the strong gain in equity value in the preceding 18 months. Management has completed its reorganization efforts and has begun to redeploy capital to focus on improving growth in its writing instruments and housewares areas. The company has targeted selected markets in Latin America for further expansion as well. We expect earnings growth in range of 7-9% in the near to intermediate term with the expectation of accelerating profitability as the U.S. economy improves. The valuation of around 14 times earnings for 2014 makes this stock very attractive.

Our goal remains focused on long-term tax efficient growth with an emphasis on capital preservation. As a result, we structure our equity and fixed income portfolios to achieve this goal over the long term.

About KPCM

Earlier this month, Thomas Le, an equity analyst more recently from Credit Suisse and Lazard Capital Markets, joined our firm in the Great Neck office. Thomas is a CFA Charterholder and will be working closely with Jack and Jeff on the equity portion of client portfolios. We are excited to have Thomas join us and hope our clients will have an opportunity to meet him in the not too distant future.

We have enclosed our annual Privacy Policy and our updated ADV for your records.

As always, please contact us to discuss any of your positions.

Jack L. Salzman
Senior Managing Partner

Jeffrey P. Bates
Managing Partner

John A. Marshall, IV CFA, CFP®
Investment Advisor

Beth C. Webb, CFP®
Investment Advisor

Nathan T. Fend
Investment Advisor