MPM
WEALTH ADVISORS

Investment Update
1st Quarter 2014

Market Commentary

INSIDE THIS ISSUE:

Points of interest:

- Economic problems stretch beyond the weather.
- What would happen to your affairs if you are incapacitated.
- Cost and risks of mistakes reduce returns.
- Daily market movements may not be as extreme as they seem.

THE JOBS REPORT for February and initial unemployment claims were much better than expected, as weather effects began to diminish. That very same jobs report also dashed all hope that just maybe the U.S. Federal Reserve would temporarily halt its tapering program. The 10-year U.S. Treasury bond yield jumped to 2.79% on March 7, with some bond funds beginning to show losses.

Auto sales remained soft, but didn't collapse. Personal income and consumption both looked better than expected, but that was largely because of estimated effects of the Affordable Care Act and massive spending increases on utility bills. Excluding these special factors, consumption would have been down and income gains more muted.

Employment: The employment report for February came in better than expected, with the economy adding 175,000 jobs, up from 86,000 in December and 129,000 in January. This was above expectations of 140,000, but still below the 189,000 average of the prior 12 months. The year-over-year trends showed that weather appeared to have a minimal impact, with only a modest decline in the year-over-year total employment growth rate. Nonfarm payrolls are growing about 1.7% year over year, modestly trailing the 1.9% GDP growth rate reported for 2013. That almost always happens because of productivity growth. Government job losses held back the statistics as the private sector, approximately 84% of all jobs, grew a more robust 2.0%. The very encouraging news is that, at current trend rates, the U.S. economy is just about to recover all the jobs lost during the most recent recession.

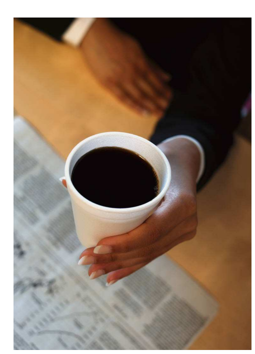
GDP: The fourth-quarter 2013 GDP growth rate was downgraded to 2.4% from the previous reading of 3.2%. The news could have been worse, but business spending turned out to be better than expected, offsetting some of the downward revisions in consumer spending. The markets took the news in stride, as the drop was widely anticipated. It also potentially meant that interest rates could stay at low levels for a little longer.

Trade: The trade number for January wasn't terribly exciting, with the deficit basically flat from the previous month at $39 billion and following January trade deficits of $51 billion and $42 billion in 2012 and 2013, respectively. Taking a longer view, the year-over-year averaged data for both import and export showed some signs of softening despite all the excitement about an improving world economy. Both import and export growth rates slowed to their lowest levels since September. Trading partners counting on great sales to the United States might be disappointed, as trade is definitely not as robust as it was in the fall. The Ukrainian situation and continued slow growth in China won't help.

Consumer Spending: Month-to-month growth in consumer incomes and consumption came in stronger than expected because of the Affordable Care Act. Income grew by an acceptable 0.3% (0.2% after inflation) and consumption by an impressive 0.4% (0.3% after inflation). Spending on gas and electricity went up a stunning 11%, even after adjusting for inflation.

Housing: New home sales showed a surprising jump and pending home sales of existing homes finally started showing signs of stabilization. Home price growth also continued to cool, but not enough to create a lot of worries. In fact, low prices might be better for the economy and stimulate more demand. Recent data suggests that home prices are likely to grow at a more sustainable 5% rate in 2014 versus rates of between 8% and 13% in 2013, depending on the index used.

Overall, the economic data remained weak, as it has for the past three months. It is now clear that the problems probably stretch beyond the weather. Morningstar economists' analysis suggests that the economy will bounce back this spring, but without any fireworks to the upside. GDP growth forecasts for 2014 range between 2.0% and 2.5%, not much different from 2013.



Five Estate Planning Tasks You Should not put off

Keeping tabs on the estate planning rules during the past few years has been a little like watching Olympic-level table tennis: The action moves quickly, and it's difficult to keep up. However, no matter how laws and rules change, there are a few basic tasks that are actually pretty evergreen and that everyone should execute. Five such estate-planning to-dos are outlined below.

1) Update Beneficiary Designations. Even people who have never set foot in an attorney's office may have laid the groundwork for an estate plan if they filled out beneficiary designation forms for their financial accounts. Those designations, in fact, trump other estate-planning documents when it comes to distributing assets, so it's worthwhile to periodically review them to make sure they're up-to-date with your current situation—if you've gotten married or divorced, for example. (How would your spouse feel if you inadvertently left your 401(k) account to your brother?) People who have drafted estate-planning documents such as wills should ask their attorneys to help them review beneficiary designations to ensure that they sync up with other estate-planning documents.

2) Designate Legal Guardians. Parents of young children should designate legal guardians who will look after their children if the parents should die or otherwise be unable to care for their minor children. It is important to focus the discussion on actual child-rearing abilities and willingness to do the job. What is not helpful is to get hung up on hurting anyone's feelings or bypassing friends or family members who might expect to be guardians but aren't the best choice. Most importantly, a guardian should be willing and able (emotionally and financially) to take care of your children if the need arises, so an essential step is to discuss the responsibilities with the potential guardian beforehand.

3) Create a Living Will and Last Will and Testament. A living will tells your health-care providers and your loved ones how you would like to be cared for if you should become terminally ill and unable to express your wishes yourself. It is called a "medical directive" in some states. This document details your views toward life-support equipment. Not to be confused with a living will, a last will and testament details how you'd like your assets and possessions distributed after your death.

4) Draft Powers of Attorney. A basic estate plan should also address what would happen to your affairs if you are still living but incapacitated. A power of attorney is a document that specifies who will handle your affairs if you are unable to do so. You'll need to draft two separate documents: one that names your power of attorney for health-care decisions and another for financial matters (often called a durable power of attorney). The person you entrust with your power of attorney for health care will, ideally, live in close geographic proximity to you. The person you name on your durable power of attorney form should be detail-oriented and comfortable with financial matters.

5) Name an Executor. Your executor will gather all of your assets after you're gone and make sure they are distributed in accordance with your will. Ideally, your executor will be someone who's comfortable with numbers and good with details, and will also be able to find the time to work on your estate. It's common to name family members as executors, but in more complicated situations it might be preferable to use a professional, such as a bank trust officer, to serve as your executor. It's a good idea to tell your executor that you've named him or her, and also provide details on how to obtain access to important documents, such as your will and a master directory detailing all of your accounts.

TASKS YOU SHOULD NOT PUT OFF

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The Investment Advantage

Is investing hard?

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The Wall Street broker types claim it is and that is why it is worth paying their commissions and fees. They maintain, to succeed at investing one has to work at gathering and processing information. Then, you have to deliberate about the markets and investments. After that, you need to act using trading skills to buy and sell at just the right time.

Our experience tells us, that type of frenetic activity may not provide a long – term competitive advantage because the costs and risks of mistakes tend to reduce returns.

We believe that investors can gain advantages by using passively managed asset class and index funds.

Consider the advantages of investing this way:

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1. You will likely keep more of those returns because index funds are cheaper to operate than actively managed mutual funds or separately managed account of individual securities.

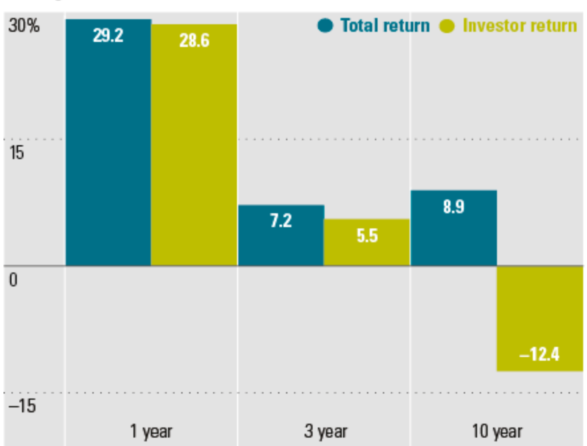
2. Index funds by design have lower portfolio turnover resulting in reduced trading costs, market impact and the income taxes you have to pay.

3. You will avoid the possibility of mistakes related to portfolio strategy or market timing whether by you or by your mutual fund manager.

4. You will avoid the risks of concentration because no one security will have a dominant position.

Chasing Performance

Comparison of a Fund's Return Performance Over Time



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. Returns and principal invested in stocks are not guaranteed. Morningstar investor returns measure how the typical investor in that fund fared over time, incorporating the impact of cash inflows and outflows from purchases and sales. It is not one specific investor's experience, but rather a measure of the return earned collectively by all the investors in the fund. Total return measures the percentage change in price for a fund, assuming the investor buys and holds the fund over the time period, reinvests distributions, and does not make any additional purchases or sales. Investor returns are not a substitute for total returns, but can be used in combination with them. Data as of December 2013.

Source: The fund illustrated in this example was selected from Morningstar's open-end database.

Investors often endure poor timing and planning as many chase past performance. They buy into funds that are performing well and initiate a selling spree following a decline. This becomes evident when evaluating a fund's total return compared with the investor return. Overall, the investor return translates to the average investor's experience as measured by the timing decisions of all investors in the fund.

The image illustrates the investor return relative to the total return for a given fund. Over the short term, both the total and investor returns were positive and relatively similar. Over a 10-year period, however, total return greatly exceeded investor return. Investors who attempted to time the market ran the risk of missing periods of exceptional returns.

WELCOME SPRING!

Past performance is no guarantee of future results

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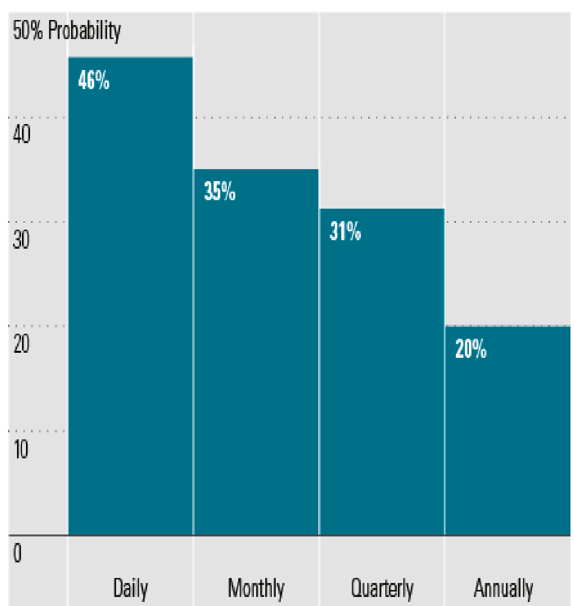
Short Term Focus

Instant access to real-time quotes and media reports can make it difficult for investors with a long-term investment horizon to stay focused on their goals. In reality, these daily market movements may not be as extreme as they seem. As investors look longer term, their perception often changes. Short-term market fluctuations can be quite volatile, and the probability of realizing a loss within any given day is high. However, the likelihood of realizing a loss has historically decreased over longer holding periods. The image illustrates that while the probability of losing money on a daily basis over the past 20 years was 46%, the probability dropped dramatically when analyzing an annual time period—20%. Periodic review of an investment portfolio is necessary, but investors shouldn't let short-term swings affect their view of the future.

Probability of losing money in the market
1994–2013



Source: Stocks are represented by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general. An investment cannot be made directly in an index. Returns and principal invested in stocks are not guaranteed. Probability of loss is calculated as the number of negative periods divided by the number of total periods using the specified frequency of data.