Investment Tally & Perspective

2014 Second Quarter Investment Strategy & Outlook

Have you ever been to a function, perhaps a wedding or retirement dinner roast, where a speaker had the audience in stitches and you were next in line for center stage, the proverbial "tough act to follow"? If the stock market could speak, then it would probably be groaning a similar refrain after last year's banner performance (the S&P 500 return was +30%).

Perhaps in sympathy with the winter weather, stocks struggled in the first quarter of 2014, ending March with market averages not far from where they started the year. The S&P 500 first quarter return of 1.81% was the lowest quarter since the last three months of 2012, and much lower than the double digit returns in the opening quarter of the prior two years. When market momentum rapidly slows in this manner, investors naturally question whether it's a pause that refreshes, or the start of a long anticipated, more notable correction. While we address the market outlook in this issue, the following is provided for context: During the past five years, as stocks have doubled from the crisis low, the market (S&P 500) has experienced 12 corrections of 5% or more; 10 of the corrections were single digits, with two being unpleasant declines of -16% and -19% that required actions by the Fed to reverse their descents.

While past actions are of interest, investors are mainly concerned with the future which is difficult to discern given recent market activity. This issue of Tally & Perspective reviews recent market dynamics and whether an inflection point has been reached with more visible changes underway. For perspective, we first provide a recap of our investment style and processes (page three) followed by our Investment Outlook (pages three and four).

Lincoln Capital Corporation

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MAJOR INDUSTRIALIZED COUNTRIES

	2014 Est. GDP	Unemployment	Consumer Prices	Budget Balance (as % of GDP)	Int. Rate 10-Yr Gov't
Britain	2.9%	7.2%	1.9%	-5.4%	2.8%
Canada	2.3%	7.0%	1.5%	-2.6%	2.6%
France	0.8%	10.4%	1.1%	**-4.2%**	**2.1%**
Germany	1.8%	6.7%	1.3%	**0.5%**	**1.6%**
Italy	0.5%	13.0%	0.7%	**-3.3%**	**3.3%**
Japan	1.2%	3.6%	2.6%	-8.1%	0.6%
Spain	0.8%	25.6%	0.4%	**-5.8%**	**3.2%**
Switzerland	2.0%	3.2%	0.3%	0.5%	1.0%
United States	2.8%	6.7%	1.7%	-2.9%	2.8%

Note: Interest rates in bold are Euro currency rates.

Data from The Economist, April 5, 2014

MARKET INDEX RETURNS

Fixed Income	**1st Qtr. 2014**	**1 Year**	**3 Year**	**5 Year**
Citi Treasury Bill 3 Month	0.01%	0.05%	0.06%	0.09%
Barclays US Aggregate Bond Index	1.84%	-0.10%	3.75%	4.80%
Barclays Global Aggregate Bond Ex US	2.79%	3.24%	2.06%	5.25%
Stock Indices				
S&P 500	1.81%	21.86%	14.66%	21.16%
Dow Jones Industrial Average	-0.15%	15.66%	13.05%	19.85%
NASDAQ Composite	0.83%	30.18%	16.14%	23.76%
MSCI EAFE Index	0.66%	17.56%	7.21%	16.02%
MSCI Emerging Markets	-0.43%	-1.43%	-2.86%	14.48%
Other				
Dow Jones UBS Commodity Index	6.99%	-2.10%	-7.37%	4.24%
S&P GSCI Precious Metal Index	6.10%	-21.37%	-6.83%	6.18%

*Data obtained from Morningstar; period ending 3/31/2014

*All figures are stated as trailing total returns, and returns over 1 year are annualized

Our Investment Philosophy and Strategy

Our research and portfolio management processes are derived from our investment principles and beliefs. The foundation is based on fundamental research with major emphasis on monetary policy, economic trends, market and security valuation, and investor psychology or sentiment. Over long periods of time, we view stock investments as the best asset class for income, growth of income, capital appreciation and as assets which offer an inherent ability to offset some of the ravages of inflation. We view stock investments from the perspective of long term investors in operating businesses, much different than speculators view of stocks as short term vehicles for trading.

While we invest in stocks with an extended time horizon, we do not believe that markets are truly efficient. Human emotions, primarily greed and fear, periodically cause both opportunities and traps that are often difficult to identify. In this regard, research processes that focus on trading data of markets, sectors, and individual securities complement their fundamental counterparts, and are useful tools and inputs. The summation of our research efforts result in portfolio strategies that consider general economic and financial market factors, and weigh the risk and reward relationships of individual securities. Current views follow.

Investment Outlook

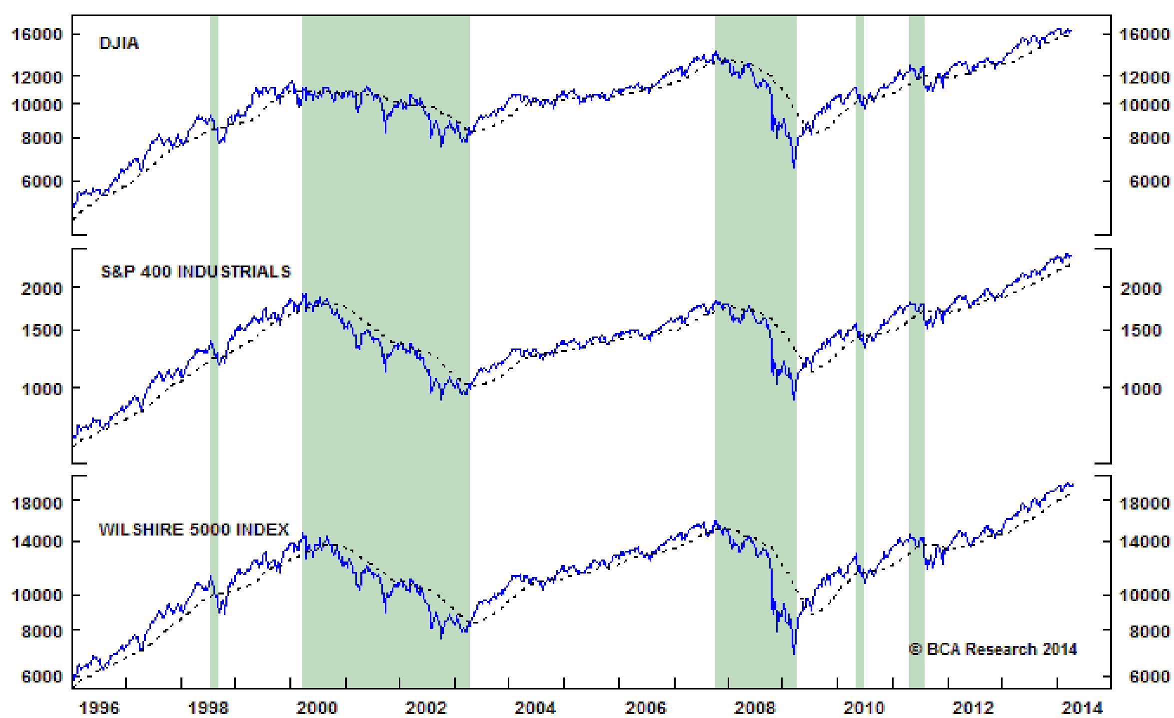
Economic Trends and Monetary Policy – While the rise in stock prices has been supported by growing corporate profits, the Fed and other central banks have played leading roles behind asset price increases in the past five years. The new Fed chair, Janet Yellen, has repeatedly assured market participants that extraordinary Fed policies will continue for as long as deemed necessary. At present, the Fed is expected to continue buying large volumes of bonds until this coming October, with interest rates not being raised until 2015. So monetary policy, while a major worry longer term, will remain supportive of risky assets for the foreseeable future. This means that the economic recovery, now in its fifth year, still has legs and will likely gather momentum during the remainder of the year and continue in 2015.

Worth noting is that higher asset prices (stocks, bonds, real estate), along with debt repayments and borrowing restraints have resulted in record levels of net worth for households, businesses, and state and local governments, even though the economic recovery has been relatively mild compared to historical expansions.

Valuation and Investor Psychology – Just as "beauty is in the eye of the beholder", there are numerous metrics and methodologies for security and market valuation. Investors may compare a specific security's current measures to its historical readings (absolute valuations), as well as comparing various measures to those of other securities (relative valuations). In today's markets, most absolute valuation measures are towards the high end of their historical averages. When comparing stock valuations relative to other securities, an important consideration is the actions of the Fed which, frankly, distort all asset prices, making them somewhat artificial (as prices are not truly being determined by the sole actions of buyers and sellers). Further, by keeping interest rates near zero for over five years, the Fed has forced investors and savers to assume increasing risk in order to earn positive returns, a phenomenon that does not occur in normal times.

Summary Outlook: The Fed continues to force investors to move funds into assets that will help stimulate the economy. Investors, knowing that the Fed has their back, have risen from the fetal position assumed during the financial crisis to assume more risk in their quest to earn positive returns. While a market correction is likely sometime this year and is possibly underway, odds favor the economy growing at higher rates in the months and, hopefully, years ahead. Even though Corporate America has enjoyed strong profits, business leaders have been reluctant to expand capacity. This will likely change as banks become more inclined to lend excess funds, and as businesses increase their capital spending.

Our assessment of the investment landscape leads us to portfolio strategies that may be categorized as aggressive, neutral, or defensive. Based on current measures and trends, our allocations are normal with a bias towards becoming more defensive. Our stance is based on the view that stock prices may well overshoot fair values (a "melt-up") before selling pressures purge market excesses. Over time, while there will be headwinds and setbacks along the way, the end result will likely be higher corporate profits which will support and move stock prices higher.



------ 40-WEEK MOVING AVERAGE
LATEST DATE: APRIL 4
NOTE: SHADED AREAS REPRESENT PERIODS OF FALLING STOCK PRICES (S&P 500).