DFM
Diversified Financial Management, Inc.

80 Washington Street • Suite O-54 • Norwell, MA 02061
781.792.0440 • Fax 781.792.0606
dfm@dfmwealth.com

Investment Summary
1st Quarter 2014

On the heels of a stellar year in the stock market, the 1st quarter of 2014 has presented investors with increased volatility, new geopolitical crises in the making, and renewed skepticism regarding the health of the world economy. Nonetheless, most stock and bond markets posted small gains in the quarter, continuing the ascent of the proverbial "wall of worry."

The current U.S. economic recovery, which began in June 2009, is proving to be the weakest expansion on record. The unemployment rate, recently registering at 6.7%, is the highest reading at this point in the cycle, while increases in GDP averaging 1.8% per year is half the pace seen during the three previous U. S. economic growth phases. Nevertheless, this plodding recovery has its benefits, such as being more enduring and extending over a greater period of time. Looking at the economic fundamentals, inflation in the U.S. remains subdued (below 2%), and corporate earnings are working towards yet another quarter of growth.

In Europe, the recovery is in its early days and encountering bumps in the road. A recent European inflation reading registered barely positive in March (at .50%), with possible deflation being a very unwelcome development in the debt-laden European Union. Similar to U.S. monetary policy objectives, Europe inflation targets are approximately 2%. In response to sagging prices, the European Central Bank is expected to reduce its main lending rate from .25% to .1%. This new monetary stimulus will likely cheapen the euro and push inflation higher, providing a boost to European exports and the broader economy as a whole.