DFM
Diversified Financial Management

80 Washington Street • Suite O-54 • Norwell, MA 02061
781-792-0440 • Fax 781-792-0606
dfm@dfmwealth.com

Investment Summary
2nd Quarter 2014

Investors have enjoyed yet another profitable period in both global equity and fixed income markets during the first half of 2014. Key drivers of the U.S. economy, such as automobile sales and the housing market, continue to strengthen. Despite severe winter weather in the U.S., geopolitical flare-ups, and a startling 1st quarter contraction in the overall U.S. economy, we still achieved economic progress. As in previous quarters, companies across a diverse group of industries continue to show resiliency, generating record profits and investing for future growth. These strong corporate fundamentals appear firmly entrenched, with the leading economic indicators pointing to an accelerating U.S. economy in the second half of the year.

A notable surprise in the 2nd quarter was the further decline in interest rates, which resulted in the 10 year U.S. Treasury rate falling to 2.54%, after starting the year at 3.04%. While interest rates can be influenced by several external factors, it appears that weakening inflation expectations in the U.S. are playing a role in the rate decline. Essentially, market participants are lowering their inflation expectations for the years ahead, and pushing interest rates lower with their bond buying.

While the summary investment returns year to date are satisfying, stress points could be observed within asset classes and in certain sectors. We are closely monitoring the Federal Reserve, as they lay the groundwork for higher short-term interest rates and tighter monetary policy. In our opinion, market participants have become complacent, and the absence of a meaningful correction in the past two years is notable.