**Market Update**
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After an incredible run-up in 2013, investors entered 2014 with the expectation that the good times would come to a screeching halt and stocks would see a tumultuous drop.

As it turned out, while we saw volatility during the first quarter of 2014, we eventually ended up right back where we started the year, with the S&P 500 squeaking out a gain of 1.8 percent.

Reflecting back on the period of January to the end of March, investors can take away three lessons as we move forward and make investing decisions for the rest of 2014. Let's take a closer look at each.

## Market timing continues to be challenging

The volatility we experienced during the quarter proved that market timing continues to be a poor investment strategy.

At the end of January, the S&P 500 had declined 5 percent in less than two weeks on news that the Federal Reserve would continue to taper its bond purchases, despite the effect that decision had on the global emerging markets.

Many investors thought this dip was the start of an inevitable correction. Those who sought shelter on the sidelines, however, ended up missing out on the subsequent rebound over the next two weeks that saw the S&P land on its feet.

Two swings of more than 5 percent in a month can be tough to handle emotionally, but this is an example of why investors shouldn't try to time the market. You might get the exit right but you're unsure of when to get back in. It's a rarity that investors can predict both.

## Stocks still look good

While corrections in the market will eventually occur, we have good reason to expect that stocks will continue to trade higher over the next several years. This is because stock valuations and fundamentals are still compelling compared to the alternatives.

Let's take a look at the evidence: Bond yields during Q1 were a meager 2.5 percent; REITs offer rental yields of about 4 percent; and MLPs currently offer about 5 percent.

Meanwhile, stocks continue to be the most attractive liquid asset class with 5.5 percent profit yield plus profit growth of 5 to 10 percent.

At this time, investors will be hard-pressed to find better alternatives to stocks.

**Stocks and bonds work in tandem**

During Q1, stocks and bonds behaved as we would expect. When stocks dipped in late January, investors predictably moved toward bonds, boosting their performance.

Bonds acted as shock absorbers for portfolios by protecting against market volatility, while stocks took on more risk with the goal of higher appreciation. The first quarter saw stocks and bonds work together as effective diversifiers within portfolios.

If interest rates were to sharply spike, we could see both stocks and bonds trade lower for a time. For that very reason, we believe the Fed will do everything in its power to prevent a drastic hike in interest rates and that belief was cemented per the Fed's comments last week. However, we are positioning our bond portfolios to have greater weightings to short-term bonds -- which are less sensitive to interest rate increases -- should rates rise.

Overall, these three lessons should guide our decisions for the rest of the year.



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