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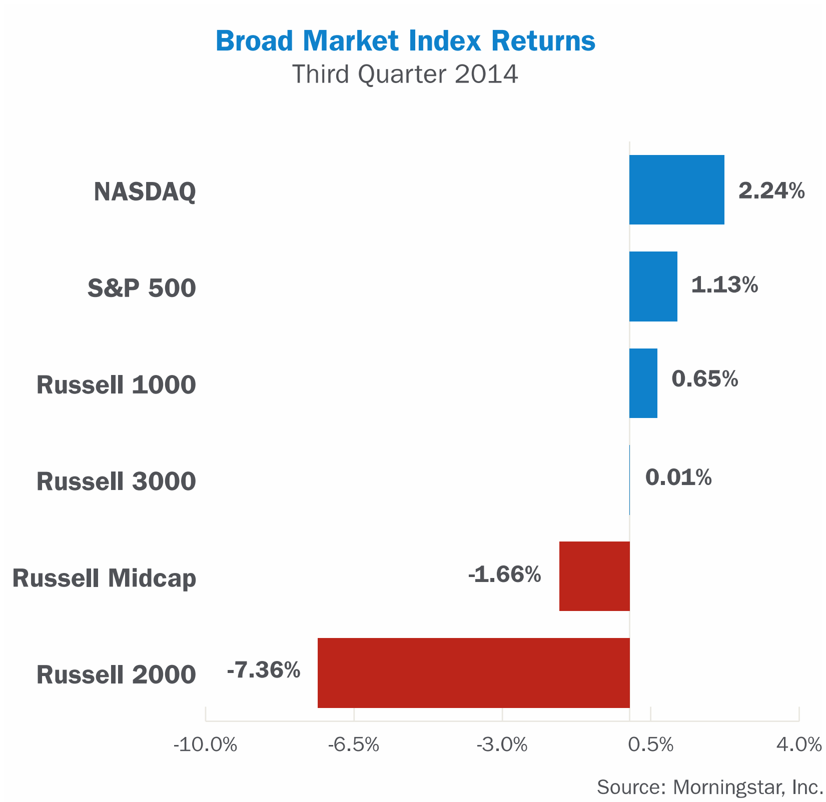
THIS IS A SAMPLE QUARTERLY REPORT LETTER THAT WE SEND TO OUR CLIENTS.

Volatility returned in the third quarter and has really accelerated in October. The third quarter started in a rocky fashion in July, followed by strong market performance in August, only to be concluded on a down note in September. Overall for the quarter, international markets as well as domestic small- and mid-cap stocks were down, while domestic large caps were largely able to hold onto slight gains.

The Economy

The domestic economic landscape improved markedly in the third quarter, emerging from a first half that did not quite live up to expectations. The Bureau of Labor Statistics raised its third estimate of second quarter gross domestic product (GDP) to +4.6%, a robust about-face from the -2.9% contraction of the first quarter. The reversal did not come as a surprise, as many economists had noted that economic data was exhibiting strength in many segments. The gains in the third quarter were led by an increase in consumer spending, which was fueled by an improving employment situation, record stock prices, and firming housing values. The employment situation was somewhat mixed during the quarter, with an average of about 207,000 jobs added each month during the quarter. The unemployment rate also declined to 6.1%, a cycle low.



Globally, the recovery has been a bit more challenging. While the U.S. and Canada have seemingly turned the corner towards acceleration, the eurozone's

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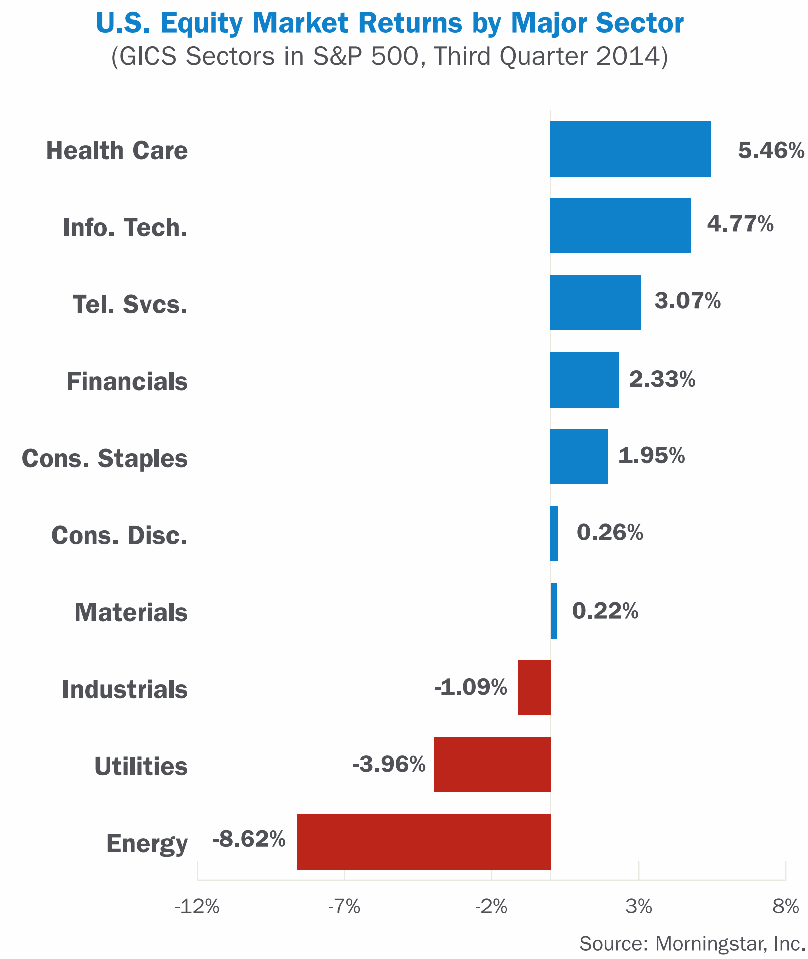
economy has had a difficult time generating steam, and continues to be hampered by high levels of unemployment and large amounts of debt. The recent decline in the euro should help exports, and could perhaps serve as a catalyst for sustained improvement. Japan's economy has slowed considerably following an April sales tax increase.



Economists expect China to remain a key driver of global growth going forward, but policymakers will be seeking to manage an unwinding of the credit bubble and a cooling off of the property market without adversely impacting other areas of the economy. Still, recent data suggest that the economy will end the year below the 7.5% annual growth target, and policymakers may take further stimulus measures to mitigate a further slowdown.

During the third quarter the Federal Open Market Committee (FOMC) affirmed its commitment to keeping the fed funds rate near 0% for a "considerable time," language that many economists believe will be altered during the committee's December meeting. In addition, the FOMC further reduced its asset purchase program, and stated that it will end in October. A growing consensus among economists is that the FOMC will begin to raise the fed funds rate sometime in the latter half of 2015.

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Highlights

GDP

The Bureau of Economic Analysis released the third estimate of the second quarter 2014 real GDP, a seasonally adjusted annualized rate of +4.6%, and an increase from the prior estimate of +4.2% growth, up from the -2.9% annualized growth of the prior quarter. The growth was primarily a result of accelerating consumer spending, fixed investment, exports, and inventory investment. Analysts attribute part of the pickup in growth to the winding down of fiscal austerity, as state and local governments begin to loosen their purse strings. Government spending made a significant contribution to the second quarter's growth. Corporate profits rose by 8.4% (not annualized), after having declined 9.4% in the prior quarter. Consumer spending grew as a result of improvement in the number of high quality jobs, low debt-service requirements, record stock values, and continued improvement in housing prices. Inflation was higher but remains relatively stable, with the personal consumption expenditures (PCE) index of prices gaining 2.3% during the quarter, up from the 1.4% rate of the prior quarter. The consensus among economists is that the economy will continue to strengthen, supported by continued improvement in job growth and a pickup in homebuilding.

HOUSING

Despite somewhat of a slowdown in demand over the past three months, the housing segment's uptrend remains on track. The segment should continue to improve, as affordability is high and job growth accelerates. Existing-home sales for August (the latest monthly data available) advanced at an annualized rate of 5.1 million units, slightly down from the level 5.14 million unit rate reached in July, and off about 5.3% from August 2013. The inventory of existing homes is relatively tight, with 5.6 months of supply. Existing-home prices in August were down slightly from the peak in June, but are still up 4.8% from year-ago levels. In the new-home segment, the NAHB Housing Market Index, a measure of homebuilding activity, ended the quarter at a level of 59, up significantly from the previous quarter's reading of 49, and the highest level since November 2005. The index has now risen in each of the past four months. Economists continue to believe that due to a low inventory of homes, a continued rebound in housing is likely.

EMPLOYMENT

The employment situation turned in a mixed performance during the third quarter of 2014. Employers added only 142,000 jobs during August, down from the 229,000 level of May. The three-month moving average was 207,000, a modest level, but likely enough to continue to lower

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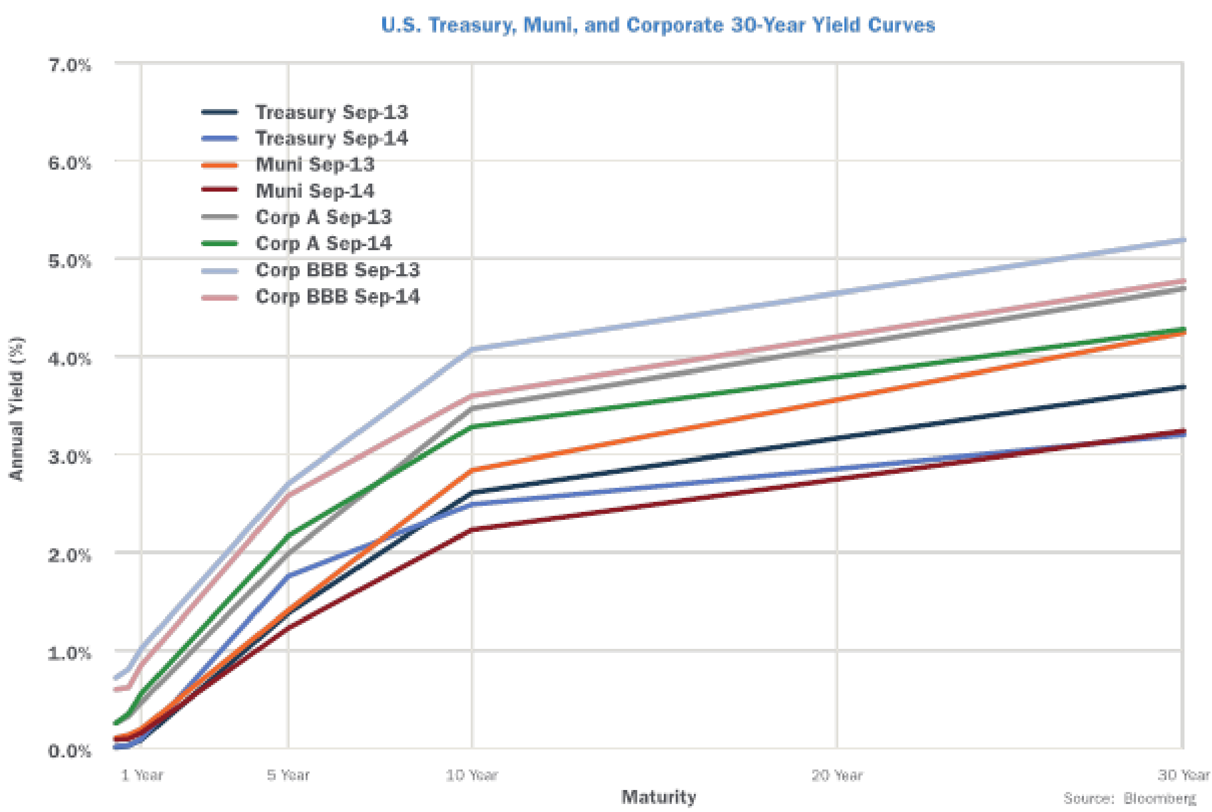
unemployment. The primary culprits responsible for August's lackluster results were manufacturing and retail, which respectively accounted for zero and -8,000 jobs for the month. The unemployment rate in August declined to a cycle low of 6.1% as the labor force participation rate eased. While August's report was disappointing, analysts believe that the underlying employment situation remains robust, as job growth in higher quality segments of the economy was strong.

FED POLICY

The Federal Open Market Committee (FOMC), for the seventh consecutive meeting, decided to reduce its monthly asset purchases by $10 billion in September. The FOMC will now be buying $10 billion of Treasury securities and $5 billion of mortgage-backed securities, down from a total of $85 billion at the peak. In addition, the FOMC also announced in its accompanying statement that it would end the program at its next meeting in October. In somewhat of a surprise to analysts, the FOMC decided to retain language in the statement saying that it would maintain a low fed funds rate for a "considerable time" after the ending of the asset purchase program. However, the consensus among economists is that the language will be modified in an upcoming meeting. The FOMC also indicated that the fed funds rate will reach its neutral rate by 2017.

Interest Rates



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In the third quarter, fixed-income securities could not extend the gains posted in the first and second quarters. Competing issues provided crosscurrents for bond indices. On the one hand, improving economic trends and expectations for an eventual increase in the fed funds rate tended to put upward pressure on yields. At the same time, however, U.S. Treasury securities were sought after for their safe haven status as geopolitical strife mounted, keeping yields on Treasuries constrained. Yields made a decided push higher in September as second quarter GDP came in very strong, and as investors anticipate the end to the Fed's asset purchase program in October.

Within this environment, the shape of the yield curve flattened considerably, as short-term rates rose, intermediate-term yields were little changed, and long-term rates declined. During the quarter, strong performance in August was sandwiched by relatively weak performance in July and September. By the end of the quarter, the yield on the benchmark 10-year U.S. Treasury had ended up close to where it began, easing to 2.49% from 2.53% on June 30. Yields trended lower through the end of August, partly as a result of geopolitical tensions with Russia and in the Middle East, but abruptly reversed course through September.

In terms of total returns, fixed-income securities produced mixed results in the quarter, with municipal and certain aggregate indices providing gains, but most other segments turning in negative performance. The Barclays Treasury 5–7 Year Index declined -0.05%, and the Barclays U.S. Corporate 5–10 Year Index gave up -0.20% during the quarter. High-yield securities were among the weakest in the fixed-income space, declining -1.87%. At the other end of the spectrum, municipals produced another quarter of solid performance, as the Barclays Municipal Bond Index rose +1.49% for the quarter. The index is up +7.58% on a year-to-date basis. The poorest performing segment during the quarter was international fixed income, with the Barclays Global Aggregate ex-U.S. Index declining -5.38%.

Equity Markets

The third quarter started on a difficult note, with performance in July mostly negative as investors booked profits after five consecutive months of gains. However, August's performance was once again very strong, coinciding with a continued uptrend in economic data. By September, investors were faced with various concerns, including the prospect that the Fed would eventually need to begin raising interest rates, and likely sooner than anticipated; slowing growth in China and pro-democracy protests in Hong Kong; and the recently initiated military campaign to thwart the advance of ISIS. As a result, volatility picked up over the prior quarter. The Chicago Board

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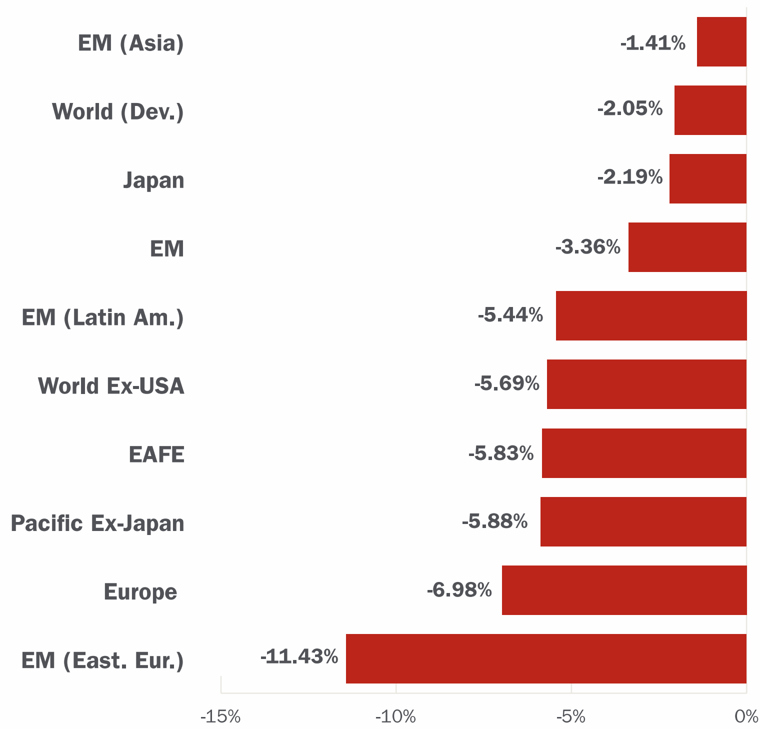
Options Exchange SPX Volatility Index—better known as VIX—finished the quarter at 16.3,% up 41% from the multi-year low established at the end of the second quarter. Despite the rise in volatility, the S&P 500 was able to eke out a slight gain. For the quarter overall, the S&P 500 advanced +1.13%, its seventh consecutive quarter of gains. The longest streak the index has posted gains is 14 straight quarters from 1995-1998. The index has advanced +8.34% on a year-to-date basis.

Non-U.S. Equity Market Returns
By Region (U.S. Dollars)
Third Quarter 2014



Source: Morningstar, Inc.

Performance dispersion among the ten primary economic sectors continues to be broad, an indication that sector and stock selection is becoming more vital. The healthcare sector was the best performer in the third quarter, posting a gain of +5.46%; the sector is also the best performer on a year-to-date basis. Information technology also posted strong results, with a solid gain of +4.77%. The energy sector was the poorest performer during the quarter, declining -8.62% as a result of slackening demand for crude oil. Utilities also fared poorly on a relative basis with a loss of -3.96%, primarily as a result of its sensitivity to rising interest rates.

For the quarter, the Russell 1000 Index of large capitalization stocks generated a +0.65% total return. Within the large-cap segment, growth stocks outperformed value stocks. Small-capitalization stocks, as represented by the Russell 2000 Index, continued to perform very weakly relative to large caps, ending with a total return of -7.36%. On a year-to-date basis, small caps have underperformed large caps by more than 12%. As in the large-cap segment, growth outperformed value within the small-cap universe. The Nasdaq Composite, dominated by information technology stocks, generated a return of +2.24% during the quarter. The Dow Jones Industrial Average of 30 large industrial companies gained +1.87% during the quarter, and is up a modest +4.60% year-to-date.

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Real Estate Investment Trusts (REITs) experienced a reversal in performance during the third quarter, in part a result of rising interest rates in September. The DJ US Select REIT Index declined -3.00% during the quarter, lowering its year-to-date gain to +14.69%. Commodities extended their slide during the third quarter, in part due to sluggish economic growth in many areas of the world, but also as a result of the strength in the U.S. dollar. Many commodities are denominated in U.S. dollars, and as the dollar strengthens, prices decline, all else equal. As a result, commodities posted a second consecutive quarter of poor performance.

International stocks significantly underperformed U.S. equities in the third quarter. The eurozone continues to struggle with tepid economic growth, prompting the European Central Bank to maintain an aggressive monetary posture, which includes imposing a negative interest rate of -0.10% on funds held with the central bank. Performance was generally negative throughout the world in the third quarter, with only limited pockets of gains. The MSCI ACWI ex-USA Index, which measures performance of world markets outside the U.S., declined -5.19% in the third quarter, as both developed and emerging markets declined. The MSCI EAFE Index of developed markets stocks retreated by -5.83% during the same period. Regional performance was generally negative across the board. China and Asia were the strongest relative performers, with the MSCI China and MSCI EM Asia indices posting returns of +0.28% and -1.41%, respectively. Emerging-markets performance was negative on an absolute basis for the quarter, but managed to continue its positive performance relative to developed markets indices. The MSCI Emerging Markets Index posted a loss of -3.36% for the quarter, bringing its year-to-date return to +2.75%.

Looking Forward

The second-quarter GDP data provides an indication of the improving strength of the U.S. economy, and there are other reasons why many economists believe this growth could accelerate into the fourth quarter and beyond. First, consumers have been a primary contributor to the rebound from the winter's doldrums. Stronger employment growth (especially in higher quality jobs), record stock prices, and rebounding housing values have given consumers' confidence to increase discretionary spending. Second, businesses are beginning to make more investments as a result of record profitability. Third, the fiscal drag of the past few years is now diminishing, with the federal government now being on more solid fiscal ground, and state and local governments in better financial position.

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Potential risks to a continued improvement in the economy would include further slowing in China's growth, which would cause repercussions in emerging markets; a monetary policy misstep as the Fed exits its asset purchase program and decides on a timetable to begin raising interest rates, and an inability of eurozone policymakers to jump-start the region's growth.

While we cannot predict how the rest of the year will play out, market volatility really accelerated in October as dropping oil prices, the Ebola crisis and concerns regarding a global economic slowdown have rattled the markets. While certainly disconcerting, the general sentiment is that the market is due for a pullback or correction. We have to remember that corrections are part of the market cycle. Whether the current slide in the market will turn into a correction is anyone's guess, but be prepared for continued volatility. As always, please be sure to let us know if you have any questions regarding your portfolio or if you feel your allocation or portfolio is no longer appropriate for your situation. Please also be sure to let us know if you anticipate any upcoming cash needs from your portfolio that we are not currently aware of.

As we move through fall and into the holiday season, we are reminded of how honored and fortunate we are to be working with you. We truly feel we have the most incredible clients and it is a privilege to work with all of you.

We'll end with a quote and warm wishes for a wonderful holiday season!

The most wasted of all days is one without laughter.

—E.E. Cummings