GALECKI FINANCIAL MANAGEMENT FINANCIAL SENSE

	LAST MONTH	LAST 3 MONTHS	1 Yr.
S & P 500 Index	0.84%	1.81%	21.86%
Russell Midcap Index	-0.27%	3.53%	23.51%
Russell 2000 Index	-0.68%	1.12%	24.90%
Dow Jones Industrial Average	0.93%	-0.15%	15.66%
Morgan Stanley EAFE Index	-0.64%	0.66%	17.56%
MSCI US REIT Index	0.54%	9.98%	4.28%
DJ UBS Commodity Index	0.41%	6.99%	-2.10%
Barclays Aggregate Bond Index	-0.17%	1.84%	-0.10%

INDEX RETURNS

The first three months of this year brought renewed volatility to the market. There were 13 days where the DJIA had 100+ point gains and 10 days where the DJIA had greater than 100 point losses. However, the DJIA was virtually flat on the quarter and the S&P 500 was only up 1.81%. Mid cap stocks as measured by the Russell Midcap Index were up 3.53% in the quarter. Small cap stocks as measured by the Russell 2000 Index gained 1.12% in the first quarter but declined 0.68% in March.

International equities also had an interesting ride in the first three months of the year. International Developed markets as measured by the MSCI EAFE Index rose 0.66% in the first quarter. International Emerging markets posted a strong gain in March of 3.07% to finish the quarter down -0.43%. Real Estate and Commodities rebounded nicely in the first quarter after struggling in 2013. The MSCI US REIT Index rose 9.98% in the first three months and the DJ UBS Commodity Index rose 6.99%.

The bond market also recovered some ground in the first quarter. The Barclays Aggregate Bond Index rose 1.84%. The JP Morgan Emerging Markets Bond index rose 3.89% in the first three months of the year.

ECONOMIC REVIEW AND OUTLOOK

The economy grew in the fourth quarter at an annualized rate of 2.6% as measured by Real Gross Domestic Product. Weather in the first quarter of this year was brutal for most of the Midwest and East coast. It is anticipated that this could drop the first quarter GDP to around 1.0-1.5%.

The Index of Leading Economic Indicators rose 0.5% in February following a 0.1% increase in January. The Index is up 2.7% over the last six months with six of the ten components advancing. This suggests the economy should continue to expand at a moderate pace and that the weather related issues will be short-lived. Industrial Production increased 0.6% in January, after declining 0.2% in January. The capacity utilization rate (measure of factory space in use) rose to 78.8%, which is 1.3% below its 40 year average. This means that inflation is likely to be benign in the near term, which will allow the Federal Reserve to continue to be accommodative.

The U.S. labor market continues to improve. Total non-farm payrolls increased by 192,000 in March and the unemployment rate remained at 6.7%. Initial unemployment claims were 326,000 for the week ending March 29. The four week moving average is now at 319,500.

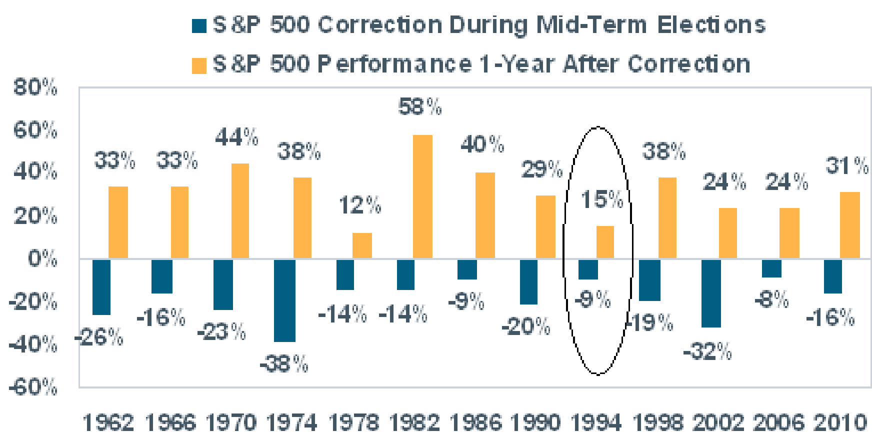
The ISM manufacturing index was at 53.7 in March. This shows a manufacturing sector that has expanded for the 10th consecutive month and the overall economy has grown for the 58th consecutive month. The ISM Non-Manufacturing index came in at 53.1 in March which was 1.5% higher than February. This reading suggests continued growth in the non-manufacturing sector of the economy.

The housing market showed signs of cooling in the first quarter. Housing starts dropped 0.2% in February to an annual rate of 907,000. However, building permits (which is an indication of future activity) rose 7.7% in February, the best gain in ten months. There is still only a 5.2 month supply of homes for sale on the market which indicates further price improvements in 2014.

Things are improving dramatically from a global perspective. The JP Morgan Global Manufacturing PMI is now at 52.4 in March down slightly from 53.2 in February. This is a five month low, but remains above its average for the last 16 months. This suggests continued global economic growth in 2014.

EQUITY AND BOND MARKETS

After a very strong 4th quarter and 2013 overall, equities took a breather in the first three months of 2014. Volatility increased significantly and the S&P 500 experienced a 6% correction. The chart below shows midterm election year corrections going back to 1962 (Strategas Research Partners via Liz Ann Sonders: Schwab). The average correction has been 18%! These are significant pullbacks. The good news is that the average expansion from the market low is 32% a year later.



It is also interesting to note that the S&P 500 over the 6-month period from November-April has gained 473% in aggregate since 1990 according to BTN Research. This is 9 times greater than the 52.6% return achieved during the May-October period.

International markets have trailed the U.S. markets for the last five years. Market returns can be cyclical in nature. It would not surprise us to see the recent surge in international markets continue throughout 2014. The EAFE index is still 28% below its 2007 peak, while the S&P 500 is near record levels. Emerging markets are also roughly 17% below their 2007 peak levels. Valuations for international markets are compelling. The EAFE index has a forward P/E ratio of only 13.6 and the forward P/E for Emerging markets is around 10.0 times earnings.

Alternative assets have sprung to life in the first quarter of this year after a very quiet 2013. The MSCI REIT index was up almost 10% and the Commodity index was up almost 7%. This is an example of why diversification is so important in a portfolio.

We recommend that you review your overall equity and fixed income allocation to make sure it is appropriate for you given your risk tolerance and time horizon. Remember to keep a long-term focus and not worry about the short-term fluctuations.

PORTFOLIO MANAGEMENT

Our investment strategy has worked incredibly well over the last few years and again looks poised to do well in 2014. Our fixed income strategy of over-weighting global bonds has worked very well. The inverse bonds and strategic income funds that carry negative durations have provided the perfect hedge in the portfolio against rising interest rates. We recently added some exposure to convertible bonds to give returns an added boost this year.

After impressive domestic returns in 2013, we began lightening our U.S. small and mid-cap exposure in December. We sold half of our U.S. small cap equities as we saw our funds return more than 30% and the P/E ratio expand to 23 times earnings. This money was re-allocated to international emerging equities which were down around 8% in 2013 and dropped to a P/E of about 10 times earnings. We were fortunate that we had moved almost completely out of international emerging in January of 2013. Although we might be early to this space, it is just too hard to pass up valuations at these levels.

We sold half of our U.S. mid-cap equities in March of this year. This change was made to again take some profits off the table and give us some cash to work with if we find something that is attractive. This gives us some added flexibility as we head into a historically difficult time for the market.

FINANCIAL PLANNING

Financial Planning is a lifetime journey. It is not a trip with a single destination. There are pivotal events during this journey and having a plan to deal with these events is critical to your success. Working with a financial planner to navigate this is an integral piece of the plan, but it is not the only component.

There are many tools that you can use along the way to make things easier, more manageable, and more convenient. Over the last few years we have found some software and applications that can help you maintain your financial plan. Here are some excellent ideas for you to consider:

- Quicken 2014 is a great financial planning tool. This allows you to track your income and your expenses broken down by category. You can download the starter edition for $29.99. You can key in your bank account and credit card information. It will take 15-30 minutes to get started identifying a few of your expenses, but after your initial set up, downloads and reports are fairly seamless. This is a great tool for tracking your expenses. The tablet and smart phone apps are robust as well.

- Quick Password Application is available for your smart phone or tablet. This particular application is $0.99. The application allows you to enter all of your user ids and passwords in one location. There is a password that you are required to use when you open the application, so your data is secure. It is always a good idea to password protect your smart phone and tablet as well.
- Bills for iPad is an interesting application that allows users to be more proactive in managing their bills and avoiding any unwanted charges. The app acts as a smart calendar, which keeps a running tab of remaining bills to be paid each month. The app sells for $2.99.
- Chase Mobile Application has set the standard for mobile banking. Chase mobile lets customers deposit checks, pay bills, review balances and send money person-to-person. The app is free on most platforms.
- Charles Schwab and TD Ameritrade have robust applications for clients. These applications allow you to make deposits, check balances, review performance data and conduct research on the market, individual companies or funds. Both apps are free on most platforms.

Company News

Nicole Muzzillo

Nicole joined Galecki Financial Management in February of 2014. She works primarily as a Client Service Specialist with Ross in the Client Service Department. She is responsible for daily download procedures, report creation for meetings and some additional para-planner duties.

Nicole graduated from Trine University with a Bachelor's degree in General Studies and a minor in Mathematics. She also played on Trine's soccer team. Prior to joining GFM, Nicole worked for JP Morgan in Indianapolis as a student loan representative in their call center.

In her spare time, Nicole enjoys time with her shepherd boxer puppy "Layla." She enjoys watching and rooting for Purdue athletics. She also enjoys running and walking outside when the weather permits. Please welcome Nicole to our team.

- Galecki Financial Management Investment Committee

Special Note: If you would like to receive a color copy of this newsletter, or schedule an appointment with a financial planner, please visit www.galecki.com.