Third Quarter 2014

GALECKI FINANCIAL MANAGEMENT

FINANCIAL SENSE

	LAST MONTH	LAST 3 MONTHS	YTD
S & P 500 Index	2.07%	5.23%	7.14%
Russell Midcap Index	3.29%	4.97%	8.67%
Russell 2000 Index	5.32%	2.05%	3.19%
Dow Jones Industrial Average	0.75%	2.83%	2.68%
Morgan Stanley EAFE Index	0.96%	4.09%	4.78%
MSCI US REIT Index	1.17%	7.00%	17.68%
DJ UBS Commodity Index	0.60%	0.08%	7.08%
Barclays Aggregate Bond Index	0.05%	2.04%	3.93%

INDEX RETURNS

The volatility that existed in the first quarter was absent during the last three months. Domestic equities meandered upward in a relatively quiet manner. The S&P 500 rose 5.23% during the second quarter and is now up 7% on the year. Mid cap stocks as measured by the Russell Midcap Index were up 4.97% in the quarter. Small cap stocks as measured by the Russell 2000 Index gained 2.05% in the first quarter and are now up 3.19% year-to-date.

International equities also produced consistent gains. International Developed markets as measured by the MSCI EAFE Index rose 4.09% in the first quarter. International Emerging markets gained 6.6% in the second quarter. Real Estate and Commodities continued their upward progress. The MSCI US REIT Index rose 7.00% in the second quarter and is now up 17.68% on the year! Commodities rose fractionally but are still up 7.08% in 2014.

The bond market showed resilience in the second quarter. The Barclays Aggregate Bond Index rose 2.04% in the second quarter and the JP Morgan Emerging Markets Bond index rose 4.99% and is now up 7.29% in 2014.

ECONOMIC REVIEW AND OUTLOOK

The economy stalled in the first quarter and produced a -2.9% annualized growth rate as measured by GDP. Those of us living in the Midwest or East coast understand just how brutal the weather was during the first three months of the year. Activity in the second quarter has improved dramatically and early estimates are for positive growth rates in the 2-3% range.

We do not see any signs of continued contraction in the economy. Most indicators are producing solid numbers. The Index of Leading Economic Indicators rose 0.5% in May following a 0.3% increase in April. This suggests the economy could produce more robust gains in the second half of the year. Industrial Production increased 0.6% in May, after declining 0.3% in April. The capacity utilization rate (measure of factory space in use) rose to 79.1%, which is 1.0% below its 40 year average.

The U.S. labor market continues to improve. Total non-farm payrolls increased by 288,000 in June and the unemployment rate is now at 6.1%. Initial unemployment claims were 313,000 for the week ending June 28. The four week moving average is now at 315,000. These numbers suggest the labor market is tightening. Continued improvement in this area could cause the Federal Reserve to begin tightening monetary policy before many economists originally expected.

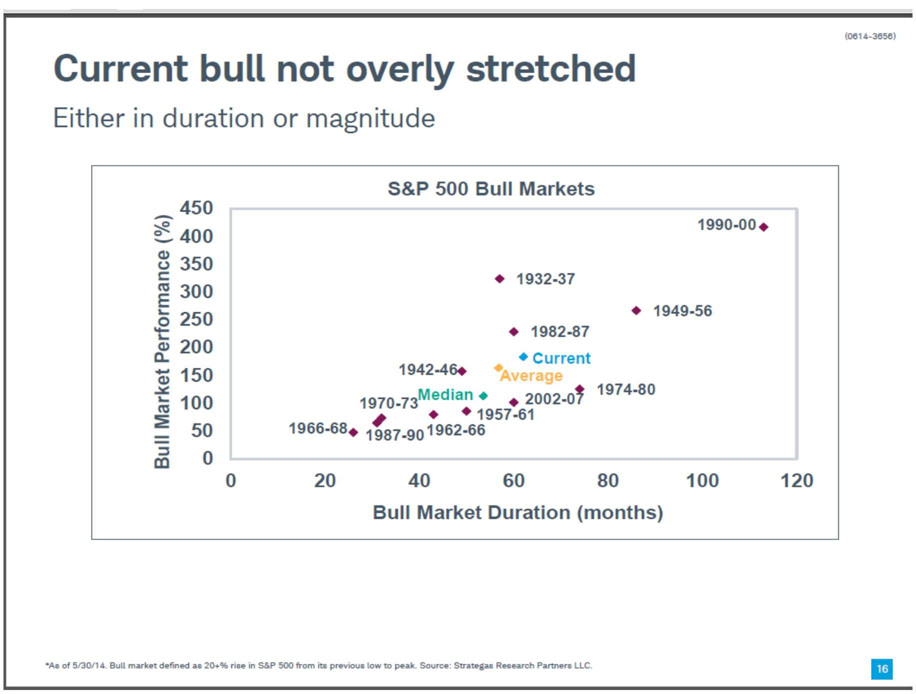
The ISM manufacturing index was at 55.3% in June. This shows a manufacturing sector that has expanded for the 13th consecutive month and the overall economy has grown for the 61st consecutive month. The ISM Non-Manufacturing index came in at 56.0% in June which was lower by 0.3 than the May reading. 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 rose to 1.001 million in May. There is still only a 5.6 month supply of homes for sale on the market which indicates further price improvements in 2014. Although this number is higher, a six month supply is typically a sign of a healthy balanced market.

Things are improving dramatically from a global perspective. The JP Morgan Global Manufacturing PMI is now at 52.2 in May versus 51.9 in April. This suggests continued global economic growth in 2014.

EQUITY AND BOND MARKETS

The current bull market which began in 2009 is now the fourth longest in the history of the S&P 500. Since it is up more than 190% during this five year stretch, it is also the fifth best in terms of percentage return.



It is important to remember that valuations play an important role in bull markets. In March of 2000 at the end of the longest bull market in history, the P/E ratio for the S&P 500 was 25.6. It is currently at 15.6 which is right in line with the historical average. From a valuation perspective, domestic stocks are fairly valued.

Investor sentiment is a bit elevated currently. This contrarian indicator suggests that there is an elevated risk for a short-term correction. Domestic equities from a long-term perspective still look attractive relative to many other asset classes.

International markets look cheap at current levels. The forward P/E for the International Developed EAFE Index is at 14.2. The forward P/E ratio for International Emerging Markets is at 10.9. We believe both markets are poised to outperform domestic markets over the next few years.

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

We raised some cash in March and May by selling our Mid-Cap Growth holdings. The iShares Russell Mid-Cap Growth fund was up nearly 50% in the 20 months that we owned it. We wanted to hold some cash as we head into what has historically been a difficult time for the market. Selling the Mid Cap Growth fund made sense due to the strong performance and the fact that we would rather hold Mid-Cap Value than Mid Cap Growth.

Our fixed income returns have lagged this year due to the inverse bond exposure. This exposure will protect the portfolio when rates resume their climb. Meanwhile, our Alternative Investments have done incredibly well this year. Our commodities funds are up more than 10% and our Global Real Estate fund is up more than 16%! Since this is 10% of our portfolio, it is really helping returns this year.

Our domestic equities are also doing great thanks to the Vanguard Energy fund (+13%) and the Salient MLP & Energy fund (+24%). These two funds are the only sector specific funds that we own on the equity side of the portfolio. So far, this is really paying off in 2014.

Our international allocation has grown this year and returns have been strong. The increased exposure to emerging markets is paying off nicely, as this asset class is now up nearly 7% on the year.

FINANCIAL PLANNING

New legislation could impact many investors utilizing retirement accounts. The first case was in regard to rollovers between IRAs. This legislation states that each taxpayer may only initiate one rollover per year. This is contrary to IRS publication 590 which indicates you can take possession of retirement assets and return them within 60 days without any tax consequence. Depending on the amount taken, a taxpayer could do this multiple times per year. The new legislation limits this to one transaction per year per taxpayer. This does <u>not</u> affect Trustee to Trustee transfers and rolloversé the most common form. It only kicks in if possession is actually taken by the taxpayer.

The second case from the Supreme Court was in regard to Inherited IRAs and their protection in bankruptcy proceedings. The old argument has been that Inherited IRAs were originally derived from qualified retirement plans and should carry the same full protection from creditors. The new ruling states that Inherited IRAs are not protected from creditors in a bankruptcy case.

Many clients enjoyed our smartphone application section from our last newsletter. Therefore, we are including a few more application recommendations in this publication for you to test. Hope you enjoy:

- **My Radar** is a fast and simple weather application that displays animated weather information at your current location. It is ideal for quickly checking the radar. It is free on most platforms.
- W**aze** is a community based traffic and navigation application. Join drivers in your area in sharing real-time traffic and road information to save time, gas, and money. The application provides driving instructions, maps, as well as accident and construction information. It is free on most platforms.
- **Hotel Tonight** is an application that helps you book a hotel room at the last minute. Hotels with unsold rooms work with Hotel Tonight and offer them at cheap discounts. Perfect if you are in a city and need a last minute hotel for the night. It is free on most platforms.
- **Urbanspoon** is the best application to help you find the best food and dining experience wherever you are located. You can view menus, prices, pictures and user reviews. It is one of the most important apps to use while traveling. It is free on most platforms.

Company News

Kevin Chandler

Kevin Chandler, CFP® joined our firm earlier this year. He is currently a Relationship Manager with a focus on estate planning, risk management and cash flow analysis. He brings a wealth of knowledge and experience to our team in these areas.

Kevin earned his bachelorǒs degree from the Indiana University Kelley School of Business with concentrations in Finance and Computer Information Systems. He is a graduate of the ABA National Trust School in Atlanta, GA and is a Certified Financial PlannerÊ practitioner. Most recently, Kevin worked for The Northern Trust Company in Chicago, IL where he managed a team of trust professionals focusing on Trust Administration, Wealth Management and Estate Planning Techniques.

Outside of the office Kevin enjoys spending time with his wife Megan, his 19 month old daughter Kendall, and 6 year old English Bulldog Romeo. You might see him riding the roads in the area as he is an avid triathlete having completed 3 Ironman races.

- 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.