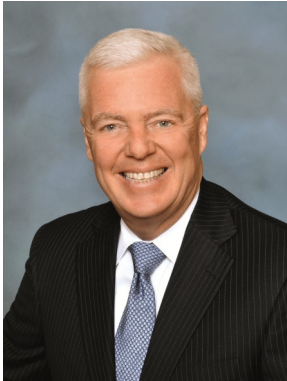


**MARKET OUTLOOK — OCTOBER 2014**

Rick Convy
AWM&T President

I've Never Met a Rich Pessimist – There is no secret on how to get rich; it requires only three things. First, spend less than you make. Second, invest the difference in a disciplined manner. The third factor is time and the power of compounding that comes with time. While this sounds simple, it is anything but. People fall victim to easy credit, spend what they do not have and become trapped on the credit treadmill. Investors constantly fall victim to their emotions and make short term, emotion driven decisions that are return killers. The data that we follow still shows the average investor to be very worried and suspicious of this market and either heavily in cash or bonds, especially Treasuries. Those who are in the market are quick to hit the sell button. Let's face it, investors are still shell-shocked after going through two almost 50% declines in the market over the past 15 years. They are waiting for the other shoe to drop.

We believe that the odds of another significant bear market are low due to the accommodative policies of the Federal Reserve combined with a slow but steady increase in corporate earnings. We also believe that market volatility has been unusually low and should increase in the future. For example, a 10% market correction has not occurred in almost three years, while the average is about once per year. We have been warning our clients to expect such a correction as it is long overdue and when it does occur, we expect it to be fast and hard due to the proliferation of ETFs (Exchange Traded Funds) and high frequency trading.

Remember, it will be a correction, not the start of another bear market. Bull markets, along with the positive economic cycles that accompany them, typically don't die on their own. It takes a catalyst such as a central bank tightening or extreme valuation levels (which we have not yet seen) to kill a bull. With the slow, uneven, but still growing economic environment, the Federal Reserve as well as other central banks are in no hurry to initiate a tightening monetary policy. Until we see sustainable GDP growth over 3% (unlikely anytime soon in our opinion), strong hiring that pushes unemployment below 6% or a large pick-up in inflation (this is getting harder to ignore) we do not expect a course change in Fed policy. Inflation, bears watching as it has been rising and may become ingrained. Until year-over-year wage gains (usually required for sustained inflation) accelerate, we will not hit the alarm button. But we will keep watch for the gathering inflation storm clouds.

Overall, we continue to expect equities, ie stocks, to continue to outperform bonds or cash. With equities, we favor large-cap dividend payers. Market history has shown that dividend yield plus dividend growth has comprised the majority of the total return of the S&P 500. With bonds, we remain defensive in maturity and favor corporate and high yield over Treasuries. Cash is our least favorite with current negative real (inflation adjusted) yields.



Wealth Management & Trust LLC



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Investor Classroom

Know what your investments cost you. All investments have a cost although some more than others. The least expensive is to do it yourself using ETFs. These have very low expense ratios and no sales loads. Just don't forget the cost of making poor, emotion driven investment decisions. Fee based investment management is more expensive but in our opinion (yes, we are fee based) well worth the cost, especially when compared to many of the self-managed portfolios we have seen. As I tell our clients, it's like my cutting my own lawn. Even if I have a riding lawnmower equipped with air conditioning, a flat screen TV and a full wet bar, I still wouldn't cut it myself. It's not worth my time when a professional can do it better, faster, and easier.

What really gets me upset is when members tell me their investment portfolio with their broker is "free". Really? Guess again. Holding any Class A mutual fund shares with high front end sales loads? What about Class C with the back end loads or Class B with the 12b-1 fees embedded in the expense ratio? Like your UITs (Unit Investment Trusts) with the sales charges taken each time the UIT expires? How about the fund of fund hedge funds that take fees and a cut of the profit at both the manager and fund level!! My favorite are the managed futures funds; don't get me started on those!

Bottom line; there is no free lunch. Know what you are paying so that you can make an informed decision if the value provided is worth the cost.

As a, wholly owned subsidiary of AAFMAA (a member owned, not for profit, 135 year-old Association), we serve exclusively the military and their families. If you are an active duty, retired or honorably discharged member of the American Armed Forces community or the surviving spouse of one, we are here to help you with your investment, trust and financial planning needs.

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