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FIRST QUARTER 2014

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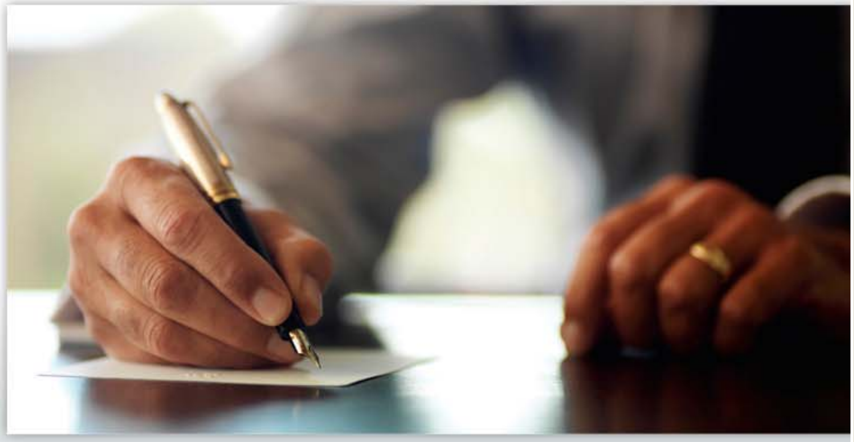

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by Mark Van Mourick, CEO

To Our Investors:

US Economy

The strength of the American economy picked up steam in the 3rd quarter of 2013 with a final GDP estimate of 4.1%, about double the average of the last few years. It is further estimated that the 4th quarter GDP (despite the short government shutdown) also exceeded 3%. Unemployment has dropped to 7.0% and consumer sentiment is back up to 82.5 (Reuters/University of M), up from a November dip of 75.1. This in turn has led the Fed to finally announce the start of tapering to their long-term interest rate support/bond buying program. This positive economic news was welcomed by Wall Street and pushed the S&P 500 further, up 32% for the year, while the yield on the 10-year Treasury bond crept back up to its high for the year, near 3%.

2014 Forecast

Most of the economic and stock market indications that we study are a solid green light heading into 2014. Declining unemployment, low inflation, strong domestic oil production, loose Fed monetary policy, building GDP, rebound in home building, reasonable political stability (relative to the last few years), household net-worth at all-time highs (yet still at "average" leverage), building consumer confidence, and positive "leading economic indicators" are all healthy or heading that way. We have emerged from the "panic" of the Great Recession, climbed the "wall of worry" and are now solidly in the "acceptance of recovery" phase of the economic cycle. This current stage is finally a feeling of "normalcy" which, if it continues, leads to "optimism" and eventually to "excess" which often marks the top of the economic cycle and stock market prices (we believe still several years away).

Worldwide, foreign economies are picking up steam and should slingshot past the US in both growth and stock appreciation in 2014. This combined with firmer foreign currencies should give commodities and inflation-sensitive investments a solid year after bottoming last year.

Wall Street is usually ahead of Main Street by about six months. We expect a solid year for business revenue and profits, which is already reflected in the public stock markets, but lagging in private. In fact, a stronger private sector could easily place unexpected further upward pressure on interest rates with demand and velocity of borrowing. This in turn could make the Fed's tapering job tricky and create added volatility in the financial markets. What makes us nervous and concerned? Additional negative fiscal policies (further tax hikes), Middle East wars, a collapse of China's real estate bubble, slow growth and high unemployment on continental Europe (England is doing well), Russian expansion, a spike in interest rates above 4% on the 10-year bond or a rolling over of the leading economic indicators. However, unless a multitude of these factors happen at once, we expect any near-term recession to be shallow (maybe 2 quarters of negative growth) and to be considered a buying opportunity.

US Stocks

What a year to own US equities! The best year since 1997 with most indexes (except the Small Cap NASDAQ) reaching new all-time highs. Non-

US developed countries (mostly Western Europe) rose an average of 19% while emerging markets dropped about 3%. P/E ratios on the S&P 500 started the year at about 17 and ended at 18.5 (WSJ). This has led us to believe that stock prices are ahead of earnings and we are overdue for our typical 10-20% annual market dip as the current forecasts (and pricing) assume no negative surprises in 2014 which is unlikely. Unlike Wall Street's consensus view of up 6-8%, we expect a flat and volatile year for stocks, like 2004 or 2011.

Fixed Income

While 2013 was a great year for stocks, it was an equally bad year for bonds. In fact, accordingly to CNN, it was the worst year in history for bond funds. Ultra-low long-term interest rates, orchestrated by aggressive Fed monetary policy and low inflation, lasted from mid-2011 until mid-2013. While US inflation remains low (about 2%), GDP is growing faster and credit is becoming easier to get. This combination, plus lower unemployment and higher factory utilization has historically led to higher inflation and interest rates. If our stronger than expected economic forecast is correct, we believe long-term (10+ year) interest rates will rise more than expected in 2014, and a 10-year yield could increase to near 4.0%. Short-term rates (Libor) should remain near 0% until 2015 and only rise then if the economy is expanding fast enough to warrant slowing it down.

In the meantime, there are pockets of opportunities in the bond market. Some closed-end municipal bond funds are selling at 15%+ discounts to NAV, prices last seen when interest rates were much higher. High-yield bonds, which normally participate in stock market rallies, have lagged significantly over the last year. Ultimately though, interest rates are likely to rise in the years ahead making bonds an underperforming asset class except for periods of future weakness in the general economy and stock market.

Summary

2013 finished well and most economic indicators are positive for 2014. In fact, if anything, the lack of serious near-term issues has caused the US stock market to become fully priced, leaving little room for negative surprise. We believe well balanced portfolios will rule the day in 2014, as commodities, foreign stocks, alternatives and inflation sensitive investments outperform both stocks and bonds. However, we see a brighter 2015 for financial securities after an "adjustment year" in 2014. We suggest that you enjoy this period of "calm seas" for economic problems and let us scan the horizon for the next storm.

Optivest News

Introducing Leon James:

Please welcome **Leon James, CFP/CRFA** to Optivest. Leon has deep experience and knowledge regarding the complex issues of retirement planning, including IRAs & 401(k)s, pensions, social security, income annuities and life insurance. Leon is also an elder at Coast Hills Community Church and an avid baseball fan.

For a more detailed introduction, please find Leon's bio below:

Leon James has been providing sound investment advice for over 25 years, with an emphasis on helping people develop a strategic vision for building, managing, and distributing their retirement assets. His most recent position was Senior Financial Advisor for Anchor Capital Management Group, a private money management firm. A respected author, most recently published articles include, "The IRA Distribution Tax Trap", "Retirement Plan Distributions – Developing 30 Years of Income", and "An Institutional Approach for Individuals" (Investment Advisor Magazine).

James holds many distinguished designations including: Certified Financial Planner (CFP), and Certified Retirement Financial Advisor (CRFA) dedicated to the distribution phase of retirement planning. The emphasis of a CRFA is on increasing retirement income, reducing or eliminating taxation of Social Security benefits, and protecting retirement assets from the erosion of inflation and taxes.

James is an honored member of the Cambridge Who's Who Registry of Executives and Professionals. Named as Executive of the Year for 2007-2008 representing investment management by the Membership Selection Committee.

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