MODERA
WEALTH MANAGEMENT

Financial Perspectives – First Quarter 2014

Executive Summary

Mixed economic data, concerns in Ukraine, and China's slowdown all contributed to the ups and downs we saw in the broader markets. The S&P 500 Index gained 1.8% for the quarter, its fifth consecutive positive quarter and its longest positive run since 2007.

The S&P 500 has gone 910 calendar days, 10/03/11 through and including 3/31/14, without a 10% or greater drop in the index, the 5th longest stretch without a double-digit pullback in the last 50 years. It would not be a surprise if we saw a correction given these two positive runs. However, we are neither market timers nor speculators. We continue to focus on the aspects of investing over which we can exert some control, such as asset allocation decisions, risk exposure, the degree of exposure to equity markets, and investment expense levels. These decisions continue to guide our investment strategy. As we construct your investment portfolio, we are mindful of your specific risk tolerance and long-term objectives. We continue to always support the integral role that diversification plays in one's portfolio, in order to help reduce volatility and continue to guide one's investment strategy toward a path of long-term growth.

In this quarterly commentary, we review and provide insight into the recent market actions of equities, fixed income and other asset classes. We also share our perspectives on high frequency trading and provide a few updates on the financial planning side.

Market Review

Following a robust 2013, the U.S. equity markets delivered relatively modest positive returns in the first quarter of 2014. Value indices generally outperformed growth indices while large cap stocks outperformed small cap stocks. International developed markets continued to post positive performance, with small cap stocks outperforming large cap stocks and value indices outperforming growth indices. The U.S. dollar depreciated relative to many of the major international developed currencies.

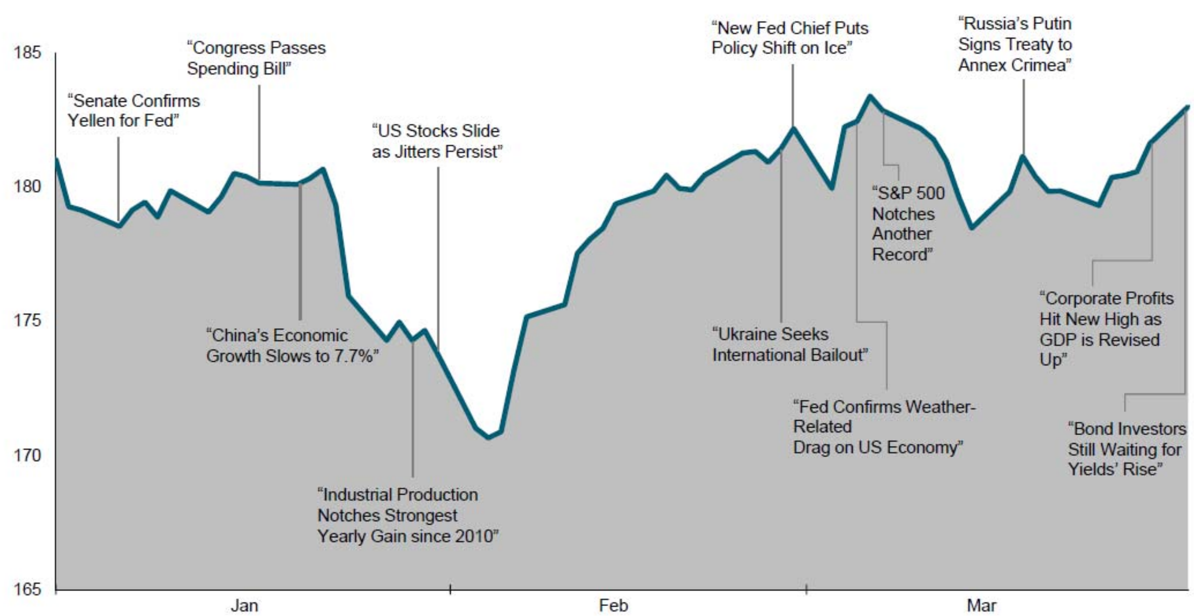
Emerging markets generally lagged the U.S. and non-U.S. broad market indices during the first quarter of 2014. Emerging small caps significantly outperformed large caps. Unlike the U.S. and international developed market segments, emerging market value underperformed growth. Emerging market currencies were mixed vs. the U.S. dollar, with some of the major currencies seeing wide differences against the dollar. Italy and Greece continued to record strong equity market returns for the quarter; Italy was the best-performing developed market. Indonesia was the best-performing emerging market. With Russia's recent military action and political unrest dominating news headlines, the Russian equity market recorded the lowest return in U.S. dollar terms.

In a sharp and sudden recovery, commodities regained ground during the first quarter with strong returns; the DJ-UBS Commodity Index rose approximately 7%. Coffee, the biggest gainer in the index, returned just over 58%, which helped soft commodities generate significant positive returns as a group. The energy complex produced mixed results. Gains in natural gas were somewhat offset by declines in gasoline and heating oil prices.

U.S. interest rates generally fell during the first quarter and broad U.S. bond market returns were positive across the board. The Barclays U.S. Aggregate Bond Index advanced 1.8% during the quarter. Spread sectors, including corporate bonds, performed well, generating solid returns over Treasuries. Lower-quality bonds outperformed their higher-quality counterparts. TIPS recovered somewhat from their 2013 decline. Municipal bonds generated solid returns. There remains a great deal of speculation on the direction of interest rates and the influence of the Federal Open Market Committee. In her first meeting as chair of the Federal Reserve, Janet Yellen announced that the Federal Open Market Committee will taper its monthly asset purchases from $65 billion to $55 billion. The Fed continued to maintain an accommodative stance through monetary policy, holding the Federal Funds target rate range at 0.00–0.25%. When asked at what point the Fed could begin to raise short-term interest rates, Yellen suggested six months after the completion of QE. Then on the last day of March, Yellen noted that the Fed will not be tightening for the foreseeable future.

In a turnaround from 2013, REITs performed strongly during the quarter, particularly in the U.S. Large cap REITs in the UK and Australia helped the performance of REIT securities outside the U.S.

The graph below summarizes several of the key events that occurred during the first quarter and the general reaction of the broader global markets (as illustrated by the MSCI All Country World Index). These selected headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should avoid making investment decisions based solely on the news.



Returns in U.S. dollars. Graph Source: MSCI ACWI Index. MSCI data © MSCI 2014, all rights reserved. It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Selected headlines are not indicative of any impact they may or may not have had on the market.

A summary of the performance of major market indices follows:

Indices	1st quarter 2014	1 year	3 years	5 years	10 years
S&P 500	1.8%	21.9%	14.7%	21.2%	7.4%
S&P MidCap 400	3.0%	21.2%	13.4%	24.9%	10.1%
Russell 2000	1.1%	24.9%	13.2%	24.3%	8.5%
MSCI EAFE	0.8%	18.1%	7.7%	16.6%	7.0%
MSCI EM (EMERGING MARKETS)	-0.4%	-1.1%	-2.5%	14.8%	10.5%
MSCI EAFE SMALL CAP	3.4%	23.7%	9.8%	22.1%	8.9%
Barclays U.S. Aggregate	1.8%	-0.1%	3.7%	4.8%	4.5%
Barclays U.S. Corporate High Yield	3.0%	7.5%	9.0%	18.2%	8.7%
Barclays Municipal Bond: 5 Year (4-6)	1.0%	1.0%	3.7%	4.0%	3.9%
FTSE Nareit All REITs	8.6%	2.7%	10.6%	27.3%	7.4%
Dow UBS Commodity Index	7.0%	-2.1%	-7.4%	4.2%	0.4%

Data as of 3/31/2014. Annualized returns for all time periods of 1 year or greater.

Current Perspectives

One Year Later

As we look at the last year, we note that this month marks the one year anniversary of the Boston Marathon bombings of April 15, 2013. As we stated in our commentary a year ago, the terrorist act hit particularly close to home to everyone at Modera, given that the blasts occurred just one city block from our Boston office location on Boylston Street. Our thoughts continue to go to those impacted by this senseless crime. CNN recently featured the recovery of Boston Marathon survivor Adrianne Haslet-Davis after the loss of her limb and her courageous return to the dance studio. Her quote: "A victim ... means that I somehow belong to somebody or I'm suffering because of him and I'm not suffering. I'm thriving," she said. "I am a survivor." Her deep resilience and strength is inspirational. We continue to support the recovery of those impacted by the bombings through corporate and personal contributions to One Fund Boston, a 501(c)(3) organization focused on community building, coordinating programs and services and effectively collecting donations to help meet the significant ongoing needs of the survivor community.

Despite the unfortunate continuance of tragedy locally and worldwide, the markets have proven to be extremely resilient. For example, as we noted at the outset, the S&P 500 has gone 910 calendar days, 10/03/11 through and including 3/31/14, without a 10% or greater drop in the index, the 5th longest stretch without a double-digit pullback in the last 50 years. This has been quite a ride for market participants. It would be tempting to look back and wish that we only invested in domestic equities for the last five years. Particularly in 2013, the more an investor allocated to higher risk assets, the greater the reward. While this was the case for 2013, there were years where the opposite held true (i.e. 2008). This is an example of "don't put all your eggs in the same basket." For example, emerging market equities, which have been the weak link for the past three years, remain the best performing asset during the last decade. We stress again that high reward comes with the expense of higher risk exposure. We support the extensive use of asset classes that have low correlations with each other in order to maintain broad portfolio diversification.

Perspective on High Frequency Trading

In a recent CBS 60 Minutes episode, Michael Lewis was interviewed ahead of his publication of "Flash Boys: A Wall Street Revolt." In his book, he alleges that the stock market is rigged by high frequency traders, stock exchanges, and Wall Street firms. In particular, he noted that high frequency traders are able to front run orders, which means they are able to buy in front of you and sell them back to you when you want to buy which drives up prices. He notes that the alleged front running occurs due to the information lag. Those who pay higher fees for faster fiber optic lines will get information faster, allowing those traders to take advantage of the traders depending on the slower feeds. There was an academic paper published in January 2014 that examined this further. The authors studied Apple's stock on several days in 2012 and found a difference of 1.5 milliseconds between the proprietary feed and the public feed. They suggest that that is enough time for a trader with fast enough equipment to trade against someone with access to only the slower feed.

What does this all mean for you? Using a baseball analogy, the ballpark has pits in the infield, but we believe we are using a fly ball pitcher. Here are the major takeaways from our perspective:

- Modera is not a high frequency trading firm and our trade volume is typically very low. Furthermore, we use institutional firms like DFA and Vanguard that trade very efficiently. For example, DFA is often a market maker for certain securities (they tend to be on the favorable side of bid-ask spreads).

- The assertion that markets are potentially rigged isn't exactly new news. The financial media has discussed this issue previously, and without a doubt it will continue to do so in the future. How you manage market risks, maintaining your low-cost, globally diversified investment portfolio specific to your personal objectives, is of most importance.

- For investors who hold well-diversified, low-cost and low-turnover portfolios, any negative impact associated with a particular trade you or a fund manager placed should be a secondary concern at most. One indication of this is the relatively good returns such portfolios have generally earned during the era when high frequency trading has come to dominate the market. The important aspects are your asset allocation choice, your focus on broad diversification, low cost portfolio implementation, and the discipline to stay the course with your portfolio through market cycles.

- There is the general belief in the industry that trading costs have actually decreased as a result of high frequency trading.

Financial Planning Notes

In the last few weeks, a couple of significant changes have been made to the tax codes that bear mention at this time. For those of you who live in New York, please be aware that effective April 1, 2014, the New York estate tax exemption increased from $1,000,000 to $2,062,500. This number will increase annually until it matches the federal estate tax exemption in 2019. This new law must be factored into your overall estate plan. The United States Tax Court ruled that, as of January 1, 2015, a taxpayer can perform only one tax-free "rollover" of an individual retirement account each year regardless of how many IRAs they may have. This differs greatly from the widespread perception that a taxpayer can roll over as many IRAs as they want, and that the one-year cooling-off period applied to each individual fund. Most people do not have multiple IRA accounts so it shouldn't affect a lot of people. In the type of IRA rollover at issue, investors receive a check for their funds deposited directly to them. They then have 60 days to deposit that money into a new retirement account to avoid any penalties. Any cash not rolled over in time, however, is marked as taxable income by the IRS and can be subject to an additional 10% tax if you're under age 59½. When you look at the Tax Court ruling, the decision wasn't so much about IRA transfers but the practice of tapping into IRA money under the guise of a rollover and then having 60 days to play with it tax-free. Please reach out to your wealth manager if you have any questions.

Thank you for your continued confidence and trust in our services. It is a privilege to serve you as trusted stewards of your capital and as a guide to your financial aspirations. We welcome your questions and comments.

Modera Wealth Management, LLC