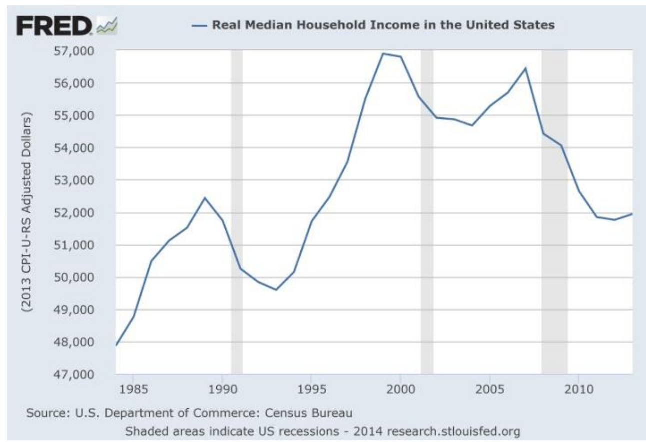
Third Quarter 2014

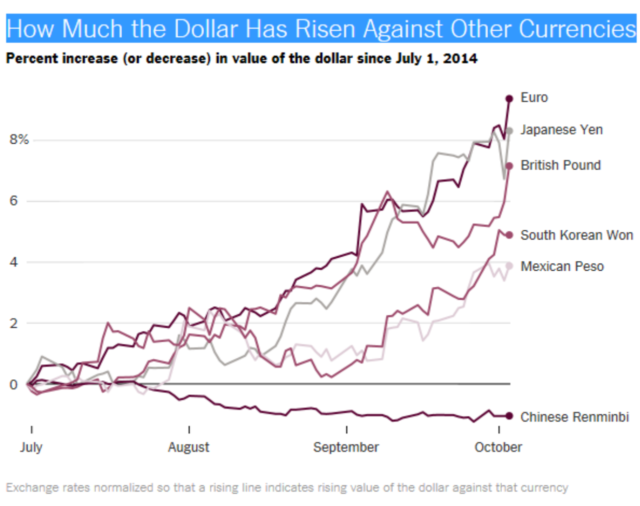
US Economy

The first six months of the year, the economy as measured by real GDP grew 2.4%. Over the last five years ending June 30, 2014, real GDP expanded at a 2.2% annual rate. In comparison, from 1791 through 1999, the growth rate in real GDP was 3.9% per year. It looks as though the second half of 2014 will continue to follow at this same, slower pace.



Even as the economy grows, the standard of living, as measured by real median household income, has declined. The US Department of Commerce reports real median household income has declined 4% during the current five year economic expansion to the same level it was eighteen years ago in 1996.

The next two largest, developed economies, Europe and Japan, are growing at 1% or less. Because the USA is the fastest tortoise in the economic race and the Federal Reserve is about finished with Quantitative Easing, the US dollar is appreciating. Money is moving from Europe, Japan and the UK into the US. Over the past five years, the major developed economies have tried to weaken their currency relative to one another. The winners are now emerging - Europe and Japan. The theory behind a weak currency is to enable the stronger currency nations to purchase more goods/services from the weaker currency nations. A strong US dollar (USD) is beneficial for American consumers, initially; however, products made in the US and exported to other countries are increasingly more expensive to our foreign customers. Additionally, since US large corporations derive approximately 50% of their revenues from outside the US, a strong US dollar will have a negative impact on corporate earnings as these payments are received in the weaker Euro and Yen currencies.



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Capital Markets

The US stock indices diverged in Q3 as the S&P 500 eked out a slight gain and the Russell 2000 small company stock index lost -7.65%. As of September 30, the Russell was officially in “correction territory” with a loss of -10.2% since its high on July 3. The anticipated small US company underperformance has begun, as they have been and continue to be the most overpriced of US stocks. We also expect the overall US stock market to underperform at some point because it too is overpriced relative to its long-term average and therefore offers low prospective returns. Such an event would reset prospective returns to much more rewarding levels.

The biggest news in the capital markets during quarter was the departure of Bill Gross from Pimco. Bill managed the largest mutual fund in the industry, Pimco Total Return. We had limited positions in this fund as Pimco had management turmoil for the past six months.

Portfolios

The largest detractors of performance for the quarter were the resource investments of gold stocks, Sprott Resources Corporation, Toscana Energy, uranium, and platinum & palladium. In aggregate, they had outstanding performance through August. However, the large gain in the US dollar and fears of economic weakness hit each resource investment. Similarly, the cheap countries investments declined for the third quarter. The third quarter and in particular the month of September were not kind to risk assets.

The primary winners in the quarter were Japanese stocks, bonds, and alternative mutual funds. The Japanese stocks hedged to the USD were up 6% in Q3 due to the Yen declining against the dollar. Bonds were up less than one percent as were the collective group of alternative funds.

Featured Investment: Toscana Energy Income Corporation

Toscana Energy Income Corporation (TSCEF), a small energy company based in Calgary, Alberta, acquires existing oil and natural gas wells with at least an eight-year life expectancy. Some wells are re-sold for a profit, while most wells are depleted. Toscana pays a monthly dividend equal to an annual rate of 12%. According to the CEO, Joe Durante, the current dividend is safe unless oil prices fall below $80 Canadian ($71.20 USD) and gas prices fall below $3 Canadian ($2.67 USD) for an extended period. Toscana is constantly evaluating deals (acquisitions and dispositions) and expects to complete more than one each year to add to reserves. We like Toscana as a conservative, income generating investment in this low interest rate environment.

Thank you for your continued trust and support.

Trevor Holsinger & Steve Small