April 11, 2014

TAPER ON TRACK

Dear Investor:

I realize that I've talked a lot about "taper" in the last year. I think everyone in the financial world is a bit tired of the subject. However, the reality is that this is the most significant issue we are living with as investors.

In my opinion, we are very fortunate that this program may be ending soon. Since December of last year, there have been three reductions of $10 billion each to date. The Fed is currently buying $55 billion a month, down from $85 billion. Their intention is to continue with this measured pace of reduction if the economic data hold up. The program could possibly end in October of this year, approximately **six years** since it began. That is a long time to be creating dollars out of thin air. Sensible people realize this cannot go on and welcome a return to "normal". As investors, we knew this tapering period would lead to market price adjustments. The sooner it's behind us the better. It should become somewhat easier to determine asset values once the Fed returns to their normal market operations.

The first quarter of the year has turned out different than many expected. The stock market has made some further gain and is up around 2%-2.5% depending on which index you look at. By most measures stocks are expensive. It seems very unlikely that we will have another big year like 2013. The bigger surprise has been in bonds and also gold, as they have done well. Interest rates have actually declined since the end of 2013 and that was not expected by the majority.

Our current outlook is unchanged from my comments in our January letter. We expect the US economy to continue making slow and steady progress. The very harsh winter has made most first quarter statistics hard to read. This should go away as we move into spring. Most economists are expecting a very low first quarter growth rate, possibly under 1%. We believe that underlying business conditions are still improving and things should pick up as we move forward.

The Federal deficit is much improved this year. It is expected to be in the range of $500 billion and 3% of GDP. Employment has improved modestly and should continue. More people have re-entered the market to look for work, which is considered a good sign. While retail sales have been slow, it's very likely that weather played a significant role in this regard. Housing seems to be holding its own but may have hit a flat spot due to rising prices and tight credit standards. Hopefully spring weather will bring out the buyers.

Please feel free to contact me anytime if you have questions or comments.

Best Regards,
David Keim

Lyndon Office Park|7000 East Genesee St. Bldg D| Fayetteville, NY 13066-1139
315-701-5750|Fax 315-701-5751|dkeim@keimassetmanagement.com
www.keimassetmanagement.com