Jonathan D. Pond, LLC TRUSTED INVESTMENT MANAGMENT



Fall 2014 Commentary

Erik Thoresen, CFA - Chief Operating Officer

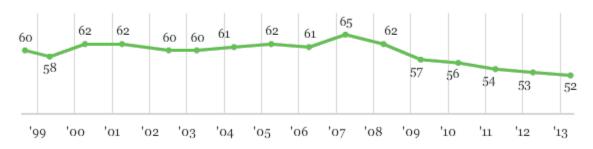
The third quarter was not as uneventful as summer markets can sometimes be. The Dow Jones Industrial Average broke through the psychological 17,000 barrier, reaching 17,138 in July, only to drop to 16,368 a few weeks later. A month later it was making fresh highs, again surpassing 17,000. For all of its daily gyrations, the Dow advanced a little over 1% in the Third Quarter. So far, 2014 has shaped up as a volatile year, with more daily price swings of over 1% for the first nine months of the year than all of last year.

With the volatility that the market has experienced since 2008, it is no wonder that stock ownership peaked in the United States in 2007 with just over 65% of American households owning equity investments. The financial meltdown and housing crisis hurt Americans financially, but it also undermined their trust in the markets. According to Gallup's recent survey, only 52% of American households own stock.

Percentage of U.S. Adults Invested in the Stock Market

Do you, personally, or jointly with a spouse, have any money invested in the stock market right now -either in an individual stock, a stock mutual fund, or in a self-directed 401(k) or IRA?





Selected trends closest to April for each year, including 2000, 2001, and 2003-2013 trends from Gallup's annual Economics and Personal Finance Survey

Psychologically, investors have a much higher aversion to losing money than an attraction to making money, so while stock ownership has decreased over the last seven years, the stock market has risen considerably. This is the classic mistake of selling into fear compounded by delaying reinvestment due to the painful scars from the past. This behavior continues to impair the financial futures of so many.

Seven years after making the decision to sell, investors are being reminded why they sold: there is much global uncertainty, and Ebola has landed here; Europe is showing fissures, and the European Central Bank seems to be failing at its job; China, the great engine of growth, is

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slowing. Geopolitically, capitalism and our western ideals are under assault on a variety of fronts. It is easy to see the glass as half empty in this environment.

On the other hand, Federal Reserve Chair Janet Yellen has continued to voice confidence in the durability of the US economic expansion. The Fed believes the US economy is on track for 3% growth with modest 2% inflation, with unemployment continuing to fall. Soothing words perhaps and this mild expansion has the potential to be longer due to the depth and severity of the last downturn.

With respect to investing, we are pragmatists. While the broad stock market has taken a drubbing of late, fixed income has hit a new all-time high. As a result, diversified portfolios, rebalanced regularly, continue to provide stability and preservation of capital, while growing over the long term at a pace in excess of inflation.

We believe the US recovery will continue and that declines in the market create opportunities to participate in the ensuing recovery; over time asset classes out of favor will become darlings once more. With so much domestic economic and worldwide uncertainty, volatility may be the norm for a while. The Fed has chartered a course of slowly tightening, and as this happens bond yields are likely to increase, with prices decreasing. However, geopolitical events could bring yields down at any point, causing a bond market rally.

As John Templeton reminds us, times of volatility can be an investor's best friend or worst enemy:

"To buy when others are despondently selling and to sell when others are euphorically buying takes the greatest courage, but provides the greatest profit." – John Templeton

This most recent downdraft, a slump in the S&P 500 of 9.8% from the high reached on September 19th was not unexpected, particularly by those with long experience in the investment markets. Unfortunately for many less-experienced investors, these selloffs act as painful psychological hangovers, potentially prolonging their aversion to participate in the equity markets.

We look at Q3 as a microcosm for the market: there were 1,000 point swings intra-quarter which scared away many investors but the end result for those who stayed the course was growth in their portfolio. Only time will tell whether we've seen the bottom of this decline, but with the long lens we use the economy will grow and so will the market, making a diversified and regularly rebalanced portfolio a necessity for the long term.

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