Equity Markets

September 30, 2014 ~ Heather A. Voight, *Portfolio Manager*

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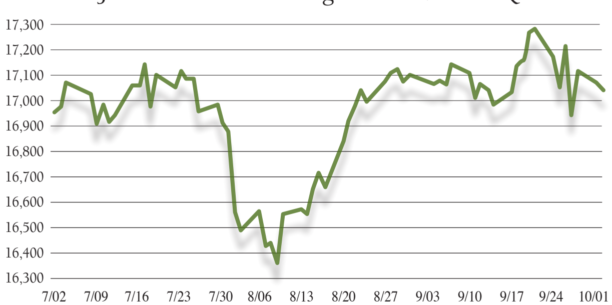
Market Comments

The third quarter brought about a pullback after strong returns in the second quarter: the S&P 500 returned only 1.13%, the weakest of the quarters thus far. Continuing conflicts in Ukraine, the emergence of ISIS, and problems in the United Kingdom may have blunted the forward momentum of stock prices, but did little to damage them. The ECB's decision to signal that it may have no choice but to provide more stimulus to combat deflation on the Continent in late August loomed large over the investment landscape in 2014. The U.S. dollar index reached a 4-year high while commodity prices and Emerging Market stocks weakened. At this stage, the greatest risks to the market are either inflation or a policy error. The former seems very unlikely in the short-term while the latter seems unlikely at least until Congress is back in session on November 12th.

Dow Jones Industrial Average • 2014 Third Quarter



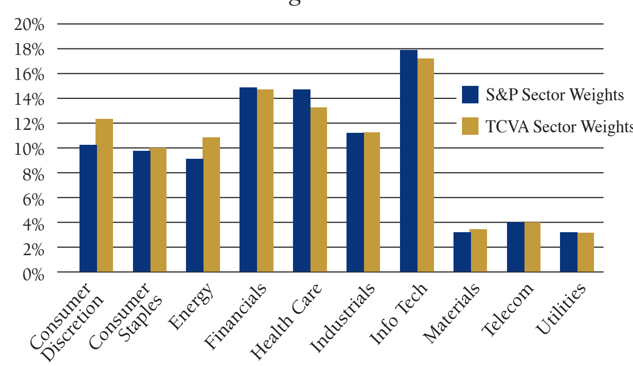
The Large Cap Core

Our large cap core equities in the Value Model underperformed the S&P 500 in the third quarter. Healthcare was the lowest performing sector, while Energy and Utilities outperformed. The other sectors were closely in line with the S&P. Once again, the defensive nature of our portfolio contributed to the underperformance, especially in Healthcare. In the ETF Model, the large cap portion slightly outperformed the S&P 500 due to our sector weightings.

Sector Weighting

Sector weighting was beneficial this quarter, as we were overweight in Energy and market weighted in Materials and Utilities, all of which outperformed. We were underweight in Healthcare, which underperformed. Unfortunately we were slightly overweight in Consumer Discretion, which underperformed.

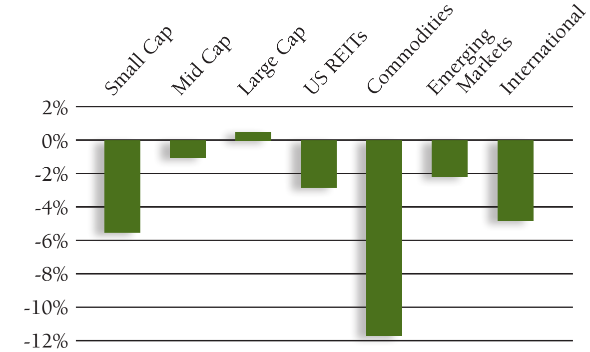
Sector Weights as of 9-30-14



The Diversifiers

The asset classes added for diversification helped our performance in the third quarter, although the chart below may seem contradictory. Our Large Cap did provide a positive return, but underperformed the S&P 500 benchmark. On the contrary, all of our diversifying categories beat their benchmarks, even though they had negative returns for the quarter. This in turn allowed our Value Model to outperform its benchmark for the quarter.

Asset Class Returns • 2014 Third Quarter



Summary

In the third quarter, the Value model outperformed the Equity Blended Benchmark and continues to stay ahead year to date. This is almost entirely due to the performance of our diversifiers, which outperformed while Large Cap lagged. This provides an excellent example of how staying fully invested in all asset categories positively affects total return. The ETF Model also outperformed for the quarter and year to date. So far this year, our high quality, diversified approach has protected our portfolios during a volatile market.

TCVA Value Model