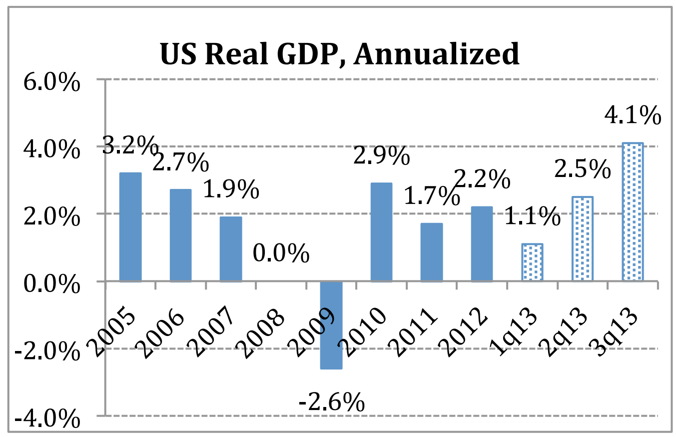
Investment Update
Year End 2013

As the year progressed, U.S. GDP growth accelerated each quarter, the fiscal cliff passed with hardly anyone noticing, and the unemployment rate fell steadily. For the coming year our best guess is for a modestly better economy in 2014 than 2013.

U.S. Economic Growth:

- We experienced higher economic growth in 2013 than in 2012, and by the end of the year the economy was a good deal stronger than we had anticipated. Higher income and higher capital gains taxes on everyone from low income workers to higher earners did not significantly impact consumer spending.

- In 2013, the U.S. saw a strengthening jobs market, a housing rebound, a resurgence in the manufacturing sector, and increased energy production as the U.S. shifted from a net importer of oil to a net exporter of energy. Fed officials have forecasted our economy to grow between 2.8% and 3.2% in 2014.



- We were correct about 2013 being another year of high political uncertainty as a debt limit debate shut down sectors of the federal government (albeit only 20% of it) for three weeks. We were not as concerned as some about the possible effects of a partial government shut down but the economy may have fared better in a more stable environment. We are optimistic that the gridlock in the government will dissipate in this election year since the government shutdown was embarrassing to both political parties.

- In 2014, we expect the U.S. economy to benefit from growing energy production, continuing advancement in the labor and housing markets, increasing exports, and more progress in relocating manufacturing capacity back to the US. Some smaller, and quite manageable risks to our analysis might include legislative delays in Congress and the uncertainty about how the Federal Reserve will handle the tapering of quantitative easing and manage short-term interest rates.

Europe and the Euro:

- In the Eurozone, we thought 2013 would bring recession or at best slower growth. But at the conclusion of 2013, it seems Europe has made a modest turn for the better. Similar to the Fed's QE program, the European Central Bank bought a considerable amount of government debt and is expected to continue to do so through 2014. As we expect somewhat better growth in the U.S. in 2014, the same could be said for Europe but with less conviction.

88 Broad Street • Boston, Massachusetts 02110
Tel (617) 624-0800 • (800) 900-4401 • Fax (617) 624-0801 • E-mail bfo@bosfam.com

Growth in the Rest of the World:

- The Chinese economy has not improved as much as we hoped it would in 2013 but growth has stabilized. China's economy is expected to have grown by 7.6% in 2013, its weakest showing since 1999. We would not be surprised to see similar growth in 2014 as we saw in 2013.

- Japan, on the other hand, had a stellar year with the Nikkei stock average rising over 57%. So far, Prime Minister Shinzo Abe's fiscal and monetary policy has succeeded in devaluing the yen and making Japanese products more attractive to the world.

2013 Equity Markets*	
S&P 500	29.6%
Dow Jones Industrials	26.5%
NASDAQ	38.3%
Russell 2000	37.0%
MSCI EAFE	23.3%
MSCI Emerging Mkts	-2.6%
2013 US Equity Market Sectors*	
Consumer Discretionary	43.1%
Health Care	41.5%
Industrials	40.7%
Financials	35.6%
Technology	28.4%
Consumer Staples	26.1%
Materials	25.6%
Energy	25.1%
Utilities	13.2%
Telecommunications	11.5%
*Price change only	

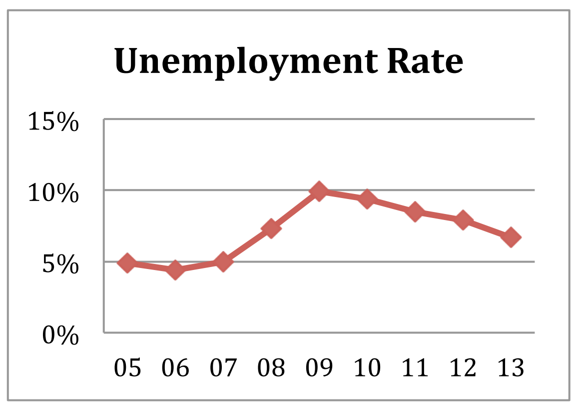
Equity markets:

- After a slow first half, U.S. earnings for 2013 are on track to grow at 4-5%. We expect to see more revenue growth in 2014 but perhaps at a slower pace since most of the recent growth came from mergers and acquisitions. Consensus estimates for earnings growth in 2014 for S&P 500 companies expanded to 10.6%.

- The forward PE ratio stretched from 12.5X to 15.4X during 2013. As we have said during the past year, with the tapering of QE and with the stronger dollar, further multiple expansions are likely during 2014.

Federal Reserve Policy:

- Last year we said short-term interest rates would remain low given the Fed's commitment to hold down rates until unemployment improved and/or inflation picked up. We thought long-term rates would creep higher as the Fed began to think about ending QE. Long-term rates did increase and the Fed announced the possibility of "tapering" QE in June, but waited until January to begin reducing the monthly bond purchases. We feel long-term interest rates will continue to rise as the Fed starts to reduce stimulus on a monthly basis.



- The Fed confirmed Janet Yellen as the new Fed Chairman, and she seems to share in Bernanke's approaches and is likely to continue along a similar path during 2014 and beyond. And so, there is a high probability that the policies announced in 2013 will carry on into 2014.

U.S. Bonds:

- In 2013, we saw rising rates (the ten year U.S. Treasury yield rose from 1.78% to 3.04%) and the overall bond market decline by 2.2%, as indicated by Barclay's U.S. Aggregate Bond Index. In 2014, we think rising interest rates again will mean negative returns for bonds.

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