DELTA
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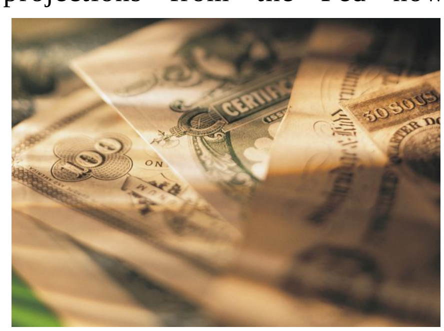
Economic Comments

The yearôs first quarter saw a changing of the guard at the Federal Reserve as Ben Bernanke left office after 8 years of economic turmoil. Having overseen a more than four-fold increase in the Federal Reserveôs balance sheet during his tenure, Bernanke left a substantially changed central bank to his successor, Janet Yellen. As one of his final moves, Bernanke again reduced the current bond buying program, known as QE3, down to $65 billion/month. Concurrently though, the Fedôs policymakers also scuttled their prior target of entertaining interest rate increases once unemployment declines beneath 6.5%.

With the U.S. central bank having again and again modified its timeline for when interest rates will be raised, officials are clearly hesitant to be painted into yet another corner. In removing the 6.5% unemployment threshold for taking action, policy makers indicated their belief that while the economy continues to improve, they do not want their future actions to be constrained by prior, possibly overly optimistic, commitments.

Although the long-term consequences of the Fedôs unprecedented actions/reactions to the Financial Crisis are still being assessed, attention has now shifted to the new Fed Chair. Like Ben Bernanke before her, Yellen appears to believe that the Federal Reserve should communicate the reasons behind current policies and the strategy for future policy - and in contrast to their forbearers who kept Fed decisions shrouded in secrecy. Consternation was caused when, in late March, the new Chair shared her desire to pursue a more aggressive strategy of raising interest rates with rate increases possibly coming ñon the order of six monthsò after tapering ends. Her remarks were somewhat tempered by her continued near-term support for the existing low interest rate policy.

Critically, the latest economic projections from the Fed now anticipate slower growth than was projected just 3 months earlier. Over the last several weeks, an apparent deceleration in U.S. growth has become clear with seasonally adjusted GDP measured at 4.1% in the 3rd quarter and declining to 2.6% in the fourth quarter. Facing additional headwinds from a relatively severe winter in much of the country, economic activity for the yearôs first quarter is projected to slow even more. Yet on a relative global basis, the U.S. recovery remains very robust. For 2014, the International Monetary Fund projects only the United Kingdom, with anticipated growth of 2.9%, to exceed the U.S.ôs forecasted growth of 2.8%.



Amidst this environment, inflation remains somnolent on most fronts with wages rising an inflation-adjusted 1.1% in the prior 12

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Economic Comments continued from cover

months. Eventually, falling unemployment should spur broader wage gains but as of yet, this phenomenon is only being anticipated rather than realized. Meanwhile, actual increases in consumer prices have now run below the Fedõs target for the 22nd straight month as core inflation rose only 0.9% over year earlier levels. With an inflation goal of around 2.0% believed to be economically optimal, this data represents an ongoing area of concern for the central bank.

Despite the difficult winter weather, job creation remained fairly consistent as the March labor report indicated that non-farm payrolls increased by 192,000 jobs after rising a like amount in February. Now, nearly five years after the Financial Crisis, private sector jobs have finally recovered to their pre-recession levels of early 2008. Support for these added positions came from the private sector as the government added no new workers during the period. However, the monthõs job creation, showed some modest weakening over recent performance and was the lowest payroll figure in 9 months. Despite this modest slowing in jobs creation, unemployment for the period remained unchanged at 6.7% as additional workers sought jobs. The result was that the labor force participation rate, i.e. the proportion of working age Americans who have or are seeking jobs, rose to a six month high of 63.2%. More bullishly, employers also increased the average hours worked by almost 1%.

Good news came from the manufacturing sector as it rebounded from a 7-month low in January. The ISMõs manufacturing index showed relative strength with a reading of 53.7. Coming in the face of the quarterõs severe weather, many analysts were encouraged.

Based on the current situation, we now look for a continued, if tepid, economic expansion. One potential game changer, as we have spoken to recently, has been the sharp reduction in U.S. energy prices (and increase in local energy supply) as a result of the ongoing shale oil/gas boom. Over the next several years, we believe that this continued development will provide a strong tail-wind to both American manufacturing and the U.S. economy as a whole.

While our enthusiasm for 2014 has slightly waned from a higher level of excitement earlier in the year, we believe that the core supports to a continued, if plodding, economic expansion remain in place.

Analyst Corner

One of the challenges with the U.S. energy market is cost effectively delivering power from those areas where supply is abundant to those areas where demand is high. ITC Holdings (*NYSE: ITC*) does just this balancing act by focusing on moving power from producers with excess capacity to local distributors with a deficit of supply. Regulators have encouraged ITCõs activities by allowing the company higher regulated returns than those typically allowed by traditional power producing utilities. As a result, we believe that ITC will continue to earn above market rates of return while having a deep competitive advantage. Although the companyõs dividend yield is only 1.7%, i.e. relatively low for the utility sector, we project that its payout will grow at close to 10% per yearð several fold the dividend growth rate anticipated in more traditional power producers. While the company has substantial regulatory risks, we believe that ITC could ñpower upò the appropriate portfolio.

Market Comments

Amidst a choppy 1st quarter, Wall Street rose a modest 1.8% for the period. Surprisingly, the most excitement was seen in the utility sector which rebounded a sharp 10% as investors became less skeptical of the segmentôs prospects. The market laggard was the consumer discretionary sector as investors rotated out of the area in the face of its recent strong gains. In general, investors found encouragement from the continued strength of U.S. corporate earnings, historically low interest rates and ongoing U.S. economic growth.

In a turn on recent events, the broader U.S. fixed income market rose by almost 2 percent in the 1st quarter - reversing some of last yearôs bond losses. The bellweather 10-year Treasury declined by more than 0.3 percentage points of yield during the quarter despite the Fedôs move to reduce its existing bond buying program. Helping drive the recovery in bond market prices were a number of factors: safe haven buying following recent emerging market turbulence; the expectation that the Federal Reserve will continue to keep interest rates at low levels for a prolonged period; less robust recent economic data; and finally, resurgent demand for bonds as investors clamored for more stable assets following the stock marketôs strong 2013 returns. In fact, some areas of fixed income have become quite expensive with the risk premium afforded to junk bonds having hit near record lows.

Late in the quarter though, the stock market segments that had shown some of the biggest moves, namely solar energy, 3D and bio tech stocks, gave up some of their recent gains as investors re-evaluated their desire to seek risk. Despite the sell off in these areas, investors have shown increasing interest for growth oriented securities as underscored by the recently robust IPO market. During the first quarter, more companies went public than in any quarter in the last 7 years.

Not withstanding the strong recent demand for shares of newly public companies, we find the market to be neither inexpensive nor overly expensive. Currently, the forward price-to-earnings ratio of the S&P 500 stood at 15.3ð close to its long term average. Other standard valuation methods such as price-to-free cash flow and price-to book value also stand close to historic norms. Projecting forward, the key drivers in the marketôs recent run appear to remain intact, namely: low inflation, easy money regimes from central banks, and improving economic data.

As importantly, many of the bigger market concerns of recent years have faded as Europeôs economy appears to be slowly mending and, in the U.S., the Congress and White House have somewhat reduced the recent fiscal uncertainties. While still optimistic about the marketôs prospects, we nonetheless believe that there remains an elevated likelihood of a stock market correction in the nearer future. Given the marketôs strong advances and uncertain interest rate future, the importance of taking prudent risks, rather than pursuing the fast money, cannot be overstated.

Performance as of 3/31/14

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	Close	Month	YTD	1 Year
DJIA	16,457.66	0.93%	-0.15%	15.65%
S & P 500	1,872.34	0.84%	1.80%	21.86%
NASDAQ Comp.	4,198.99	-2.53%	0.54%	28.51%

	Quarter end yield	Prior Year end yield	Yield 1 year ago
10 yr. U.S. Treasury	2.72%	3.03%	1.85%

Planning Thoughts

Keeping good financial records is vitally important. In the event of an IRS audit, complete records can mean the difference of hundreds, if not thousands, of extra dollars in taxes. However, having good records is possibly even more important in the event of unexpected illness or death. In prior years, we have suggested several workbooks to help clients organize their critical personal/financial documents. One of the best resources currently available is ñWhat ifé ..Workbook: Give the Gift of Preparedness to Your Loved Onesò by Gwen Morgan.

However recently, a number of websites have entered into this record keeping arena. While there is always a concern with storing critical information online, we have found one website in particular, Everplans.com, to be fairly comprehensive. Although still a work in progress, the site should be able to handle the records needs of most individuals. In the event of unexpected illness or death, and by investing 5-10 hours to complete an Everplan, your loved ones should have an easier time understanding of your financial situation and taking charge of your affairs. Whether you decide to go with an electronic website or a paper workbook (or any other system for that matter), we strongly encourage you to take the time to pull together your vital personal and financial data. This would be time very well spent - if not for you then certainly for those about whom you care!

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