Foresight

Capital Management Advisors, Inc.

Newsletter 2Q 2014 and Market Summary

FCMA's Model Portfolios are outpacing the three major indices we compare to at mid-year June 30, 2014! The FCMA average results for our mutual fund portfolios were:

Conservative Model +7.24%, Moderate Model +6.99%, and Aggressive Model +6.94%

Foresight Open House!

As our firm continues to grow, Foresight has some great news to share with our clients and business acquaintances. Our firm grew about 26% last year and we are now managing over $115 million in assets under management. We thank you for your business and we will continue to work diligently to keep your portfolios on track. Foresight will be hosting a Client Appreciation Open House this Fall. Stay tuned for an invite soon!

Meet Foresight's Newest Intern! Chelsea Morneau from EMU.

Mark Forgiel Foresight's Newest Employee from U of M.

Kyle is currently a Level II CFA candidate. See our website for Kyle's Bio.

Foresight just completed a white paper on Target Date Funds-The Next Retirement Dilemma. We entered this in a national investment essay contest. It contains research related to TDFs and is quite eye-opening. Please email us at consultant@fcmadvisors.net if you would like a copy to read.

Foresight is now a published advisor on-line at www.feeonlynetwork.com. This is a website to locate fee-only advisors in your communities. Check it out and see a video from the AIF® national conference when Laurie was interviewed about our investment processes at Foresight!

FCMA Model Returns
June 30, 2014 YTD

Conservative Model	+ 7.24%
Moderate Model	+ 6.99%
Aggressive Model	+ 6.94%
Indexes:	
S&P 500 Index	+ 6.05%
MSCI EAFE Foreign	+ 2.95%
10Yr T-Bond Index	- 0.51%

Future performance is not guaranteed; above returns are 2pt actual averages

Foresight's Portfolio Strategies

The bull market just had its 5th Birthday in March 2014, and the markets have reached all-time highs recently. It is time to take a 7th inning stretch, stand up, and take a good look around at just what is in store for the economy, investments, and the market. Foresight recently attended several national conferences to hear economists from around the world describe their outlooks and paradigms of the world. There is a famous quote from Sir John Templeton, "Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria." Consumer sentiment is stuck in neutral between skepticism and optimism and most are not embracing just how strong the fundamentals of the economy really are. Therefore, the likelihood of the bull market continuing is very high because there is still a strong skepticism camp. We need true optimism to get to euphoria, and we are not there yet. Fundamentals show unemployment has lowered to 6.1%, 2Q earnings show 77% of public companies have beat or met their earnings estimates, and GDP is expected to hit 3% in 2014. Inflation is at bay, China is recovering, emerging markets are reviving, Europe is advancing, and overall global growth should prosper in 2014. Our conclusion is, "Let's Play Ball!"

Foresight remains globally invested and we are happy to have outpaced the three benchmark indexes, S&P 500, EAFE, and 10 Year Treasury Bonds, by nearly +1% in all of our mutual fund Model portfolios YTD. We remain optimistic and have positioned our investment portfolios for diverse investment across the world in 2014. We have placed some stop-losses on stock holdings within portfolios as a safety net should the market turn negative. In stocks that have risen above their targets, we have harvested gains and repositioned in stocks with growth and value. For 3Q 2014, we increased our holdings in energy, large caps, emerging markets, and real estate. Foresight has reduced allocations in small and mid-caps, technology, and market neutral. We are maintaining our overall portfolio strategies for 2014, and expect 3Q 2014 to have decent growth due to healthy corporate earnings releases. We look forward to 2014 being a pleasant surprise for the economy and expect that most companies will continue to improve their bottom lines.

If you have any questions regarding these topics please send us an email to lstegenga@fcmadvisors.net and we will be happy to answer your questions.

Contribution Limits

	2014
401(k), 403(b), or 457 deferral limit	**$17,500**
401(k), 403(b), or 457 max. deferral if age 50+	**$23,000**
Total Savings deferral, match, and profit sharing	**$52,000**
IRA deferral limit	**$5,500**
IRA maximum deferral if age 50+	**$6,500**
Simple IRA deferral limit	**$12,000**
Simple IRA maximum deferral if age 50+	**$14,500**
SEP IRA deferral limit ***(maximum not to exceed 25% of earnings)***	**$52,000**
SEP IRA wage limit cap	**$260,000**
Highly Compensated Employee wage limit	**$115,000**
HSA – Health Savings Accounts	**$3,300=single $6,550=family**
HSA –Health Savings Accounts 50+	**$4,300=single $7,550=family**

Foresight Planning Ideas:

New IRA One-Rollover-Rule-Per Year beginning 2015: There are only two times this will impact anyone and they are when you actually take money out of your IRA and put it in a taxable account then decide within 60 days you want it put back into your IRA. The other is if you take money out of an IRA and put it into a taxable account then write a check to fund an IRA at another institution. It will be a rare case where this will actually impact anyone. The law was written to eliminate abuse in the IRA world where people were opening multiple IRAs and rolling monies between them every 60 days and actually living on the money without paying the Federal taxes for an IRA distribution.

New Health Savings Accounts-HSAs with Foresight at Schwab and TD Ameritrade: . You can now open an HSA account with Foresight and choose to have the funds invested in our Conservative Mutual fund portfolio! If you have a High Deductible Health Plan then you can consider opening a HSA = Health Savings Account. The HSA will allow you to save up to $3,300 for single and $6,550 for a family; if +50 then $4,300 for single and $7,550 for a family. The HSA savings are not subject to Federal Tax and will grow, much like a Roth IRA, with no tax due if used for all qualifying health expenses, note cannot be used to pay health insurance premiums. If you are interested in more information on this strategic investment idea for your healthcare savings please contact us. HDHP=minimum deductible for single $1,250 and family $2,500 and out of pocket maximum for single $6,350 and family is $12,700.

Roth IRA Ideas if interested in additional savings ideas consider opening a Non-deductible IRA. This will allow you to save the maximum in your 401(k) and also save an additional $5.5k in a Non-deductible IRA, and $6.5k if age 50+. Then convert the Non-deductible IRA to a Roth IRA! It is a way to obtain Roth IRA funds even if you are not able to save directly into a Roth IRA.

Consider Covered Calls with Stock Portfolios: We offer this strategy for personal investment strategies that have or would like a portfolio of stocks, and add a strategy that helps to reduce the risk and add additional income. This strategy works best in a slightly upward trending market or sideways market. If you are interested in obtaining more information regarding this strategy please email lstegenga@fcmadvisors.net and we will send you a write up on the Covered Call Strategy.

Auto-Enrollment and Auto-Increment Options for Retirement Plans: Please consider adding both or one of these important options to your company's retirement plan. They allow every employee who is eligible to be automatically enrolled at the beginning of the year, and if Auto-increment is added the company can increase the savings of each employee by 1% each year. The employee has the ability to opt out of the "Auto", but history has shown few do. Therefore the company has accomplished something good for the employee by automatically setting up savings for their retirement! Please contact us if you are interested in pursuing these features. They are very inexpensive to amend and add to your current company plan. We recommend adding them by October 2014 to implement by January 2015.

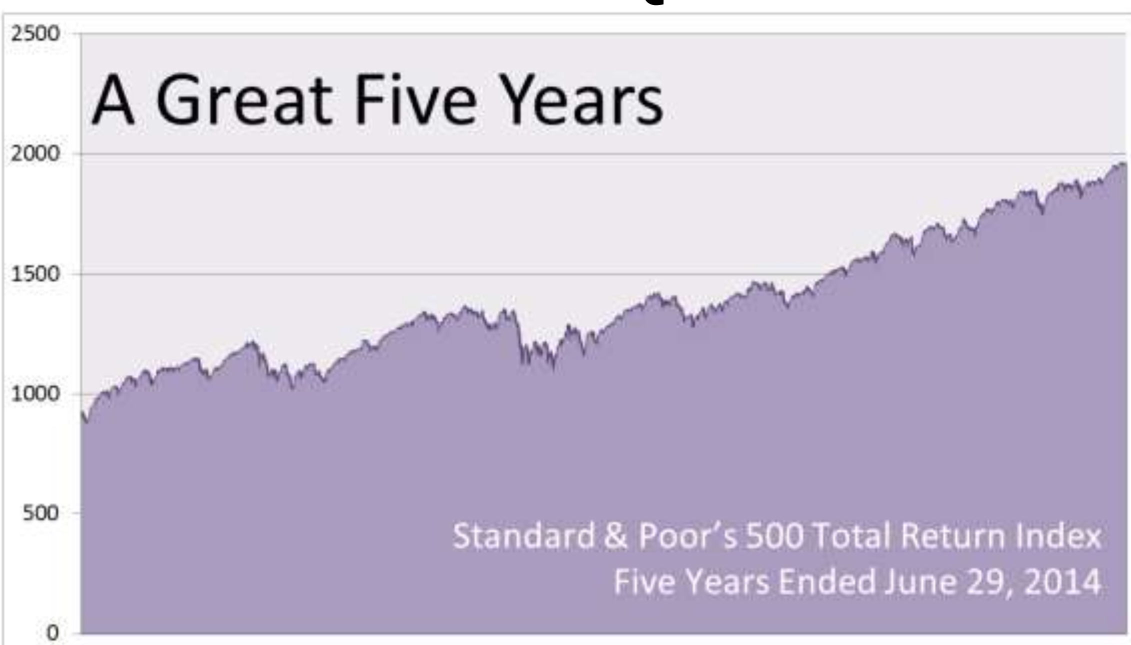
Renewable Secured Debentures: there is a new debt instrument coming to market and are expected to be available at TD Ameritrade and Schwab soon. The concept is universal life insurance policies are being sold back to insurance companies because elderly insureds cannot afford to pay the premiums and really do not need the UL life policy because the risk they once covered with the policy does not exist anymore. They can sell the policy back and receive a "life settlement" in lieu of owning the life policy. These life policies are kept active by the life settlement company continuing to pay the premiums as the new owner of the policy. Then the life policies are securitized into a Renewable Secured Debenture. The Renewable Secured Debenture is an investment that can be invested in with terms that resemble a CD in that is has terms of 6 months to 7 years. They currently pay interest ranging from 4.75% to 9.5%, are securitized by the life insurance policies, and have risk associated with the ability of the life insurance company to make its claims payments. These investments are not guaranteed but do have a history of paying off since they are associated with UL policies of elderly insureds that are laddered based on the life expectancy of the original insureds. If you are interested in more information regarding these investments please contact us a Foresight.

<u>Portfolio Risk Measures - Alpha, Beta, and Now Gamma!</u> Risk is something we all worry about with investments but when risk is properly adjusted portfolios react to market shifts with reduced risk. Foresight focuses on proper risk reduction by tracking the Alpha, Beta, and now will be working on Gamma in your portfolios. Gamma is a new risk parameter that approaches this process in a holistic way. A Gamma optimized retirement income plan can potentially create more income for a retiree. Gamma optimized portfolios create value by focusing on; total wealth asset allocation, annuity allocation, dynamic withdrawal strategy, liability relative optimization, asset location, and withdrawal sourcing. Foresight will be writing a white paper on Gamma soon to describe this risk measure more clearly. Stay tuned for its release.

<u>Foresight's New WebPortal Reporting</u>: Are you getting your quarterly reporting from us? If not please let us know so we can help you access it online through our web portal or send you a copy in the mail. We want our communication to be timely and beneficial to you. If you have any access issues please call or email us at 1-877-429-4690 or mgallagher@fcmadvisors.net. Soon we will be sending you a survey to get feedback on the use of the WebPortal.

<u>On-line Access</u> each year we encourage everyone to test your on-line access to your account(s) at the custodian or third party administrator for your plan. Please visit **Journeyrps.com, ExpertPlan.com** or **Noblepension.com** if a retirement participant. For individual clients at TD Ameritrade access **Advisorclient.com** for Schwab Institutional Clients access **Schwaballiance.com.** If you have any difficulty accessing your account, please email or contact us for assistance.

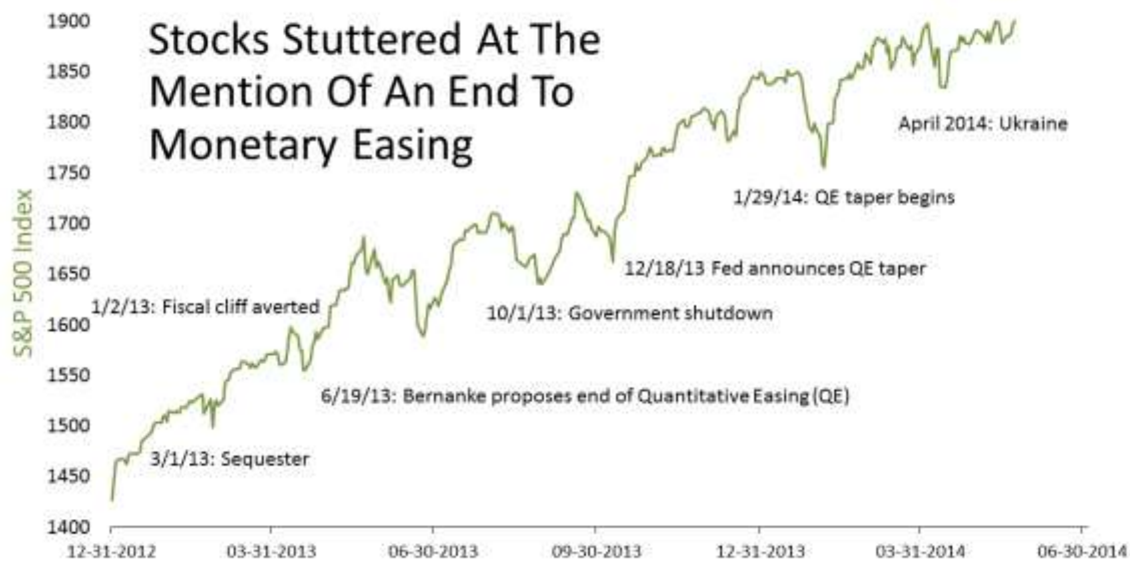
Quarterly Market Summary
2Q 2014



It was the sixth year — and the sixth quarter — in a row that stocks climbed higher — a bull-market run so stunning that it is already assured to be talked about for at least a few generations to come. Financial protocol demands the five-year period be our focus. Five years is a good stretch. In this case, it was a great stretch. The first half of 2014 marked the bull market's fifth anniversary. The most dramatic way to explain it: From the financial-crisis trough in stock prices to the S&P 500's intraday low of 666 on March 9, 2009 — five years — stocks are less than 2% from tripling!

Naturally, the bull's five-year anniversary spawned headline stories across all media questioning how much longer the good times could last. Only three out of the 23 bull markets since 1900 lasted six years or longer. The Standard & Poor's 500 stock index gained +4.7% in the second quarter of 2014, soaring after a brief sell-off in early April on Ukraine-Russian tensions.

In the year that ended June 30, 2014, the S&P 500 gained +22.0%. At quarter's end, it had been more than three years since the stock market had last experienced a -10% correction. More and more of the talking heads on TV began predicting a drop in stock prices.



Source: Standard and Poor's, through July 3, 2014. Past performance does not guarantee your future results.

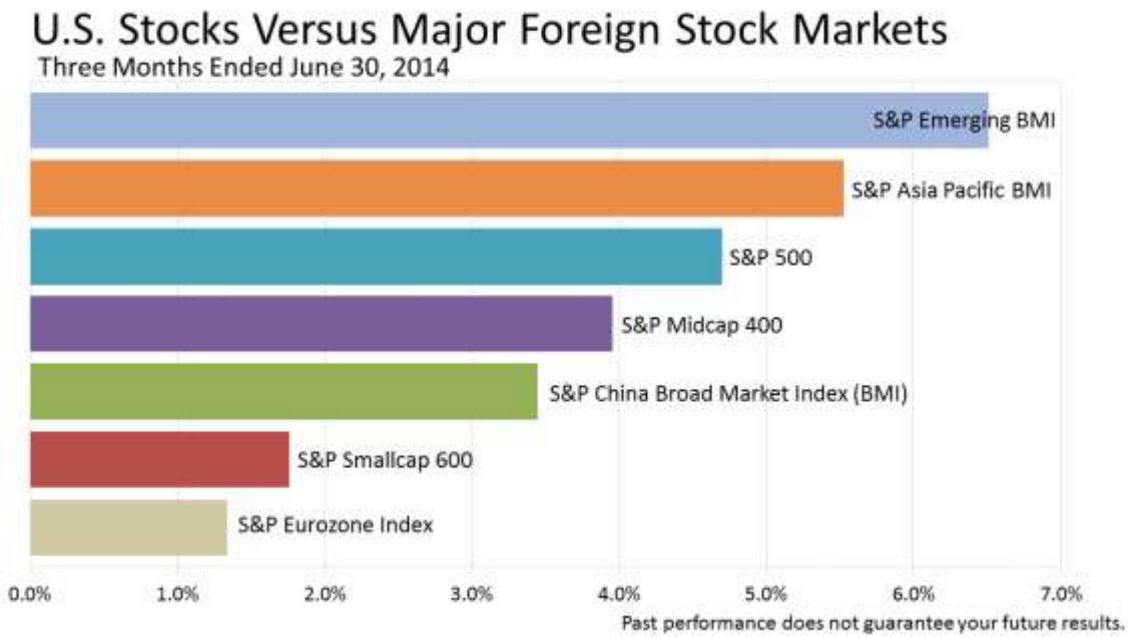
As with all strong bull markets, almost no one expected this to happen. Who would have predicted such strong returns on U.S. stocks when the economy was struggling to emerge from the worst financial crisis since The Great Depression of the 1930s?

It's anyone's guess, of course, when the next -20% bear market correction will come. What we do know is that key fundamental conditions that have accompanied bear markets of the past are not evident today. These are: restrictive Fed policy, signs of increased likelihood of recession, stock market overvaluation, and irrational investor exuberance.

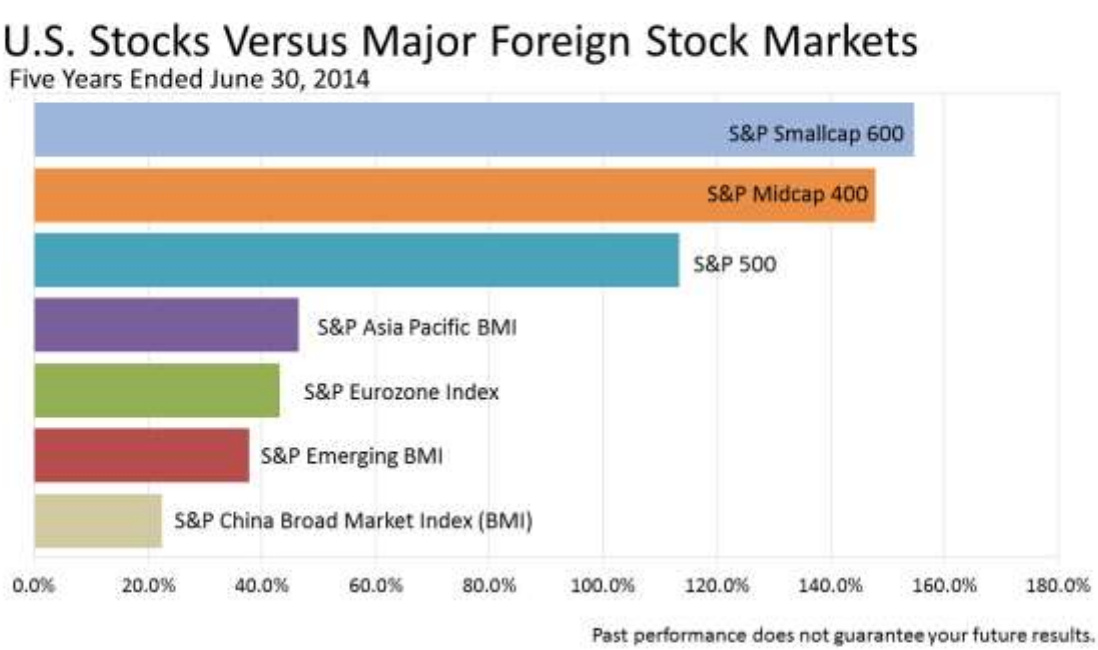
As for bonds, the big surprise in the second quarter of 2014 was that bond yields, once again, did not start trending higher on news of the impending end of Quantitative Easing, as had been so widely expected. In fact, the forecasts for rising bond yields have been very substantially off the mark for over three years, ever since well-known bond fund manager Bill Gross proclaimed in March of 2011 that yields are likely to go "higher, maybe even much higher" upon the end of QE2.

A big worry all quarter that caused stock some market jitters was the Federal Reserve's talk of "tapering," the winding down of the government stimulus program officially dubbed "quantitative easing (QE)." Under QE, the Fed had purchased $3 trillion of U.S. Treasury and Agency bonds, pushing bond yields down to stimulate the housing market, principally, and the economy more broadly. While stocks not long ago had sputtered at the mere mention of Fed tapering, by the end of the second quarter the market seemed to accept that a world without QE just might be okay. Economic data, meanwhile, continued to improve all through the quarter.

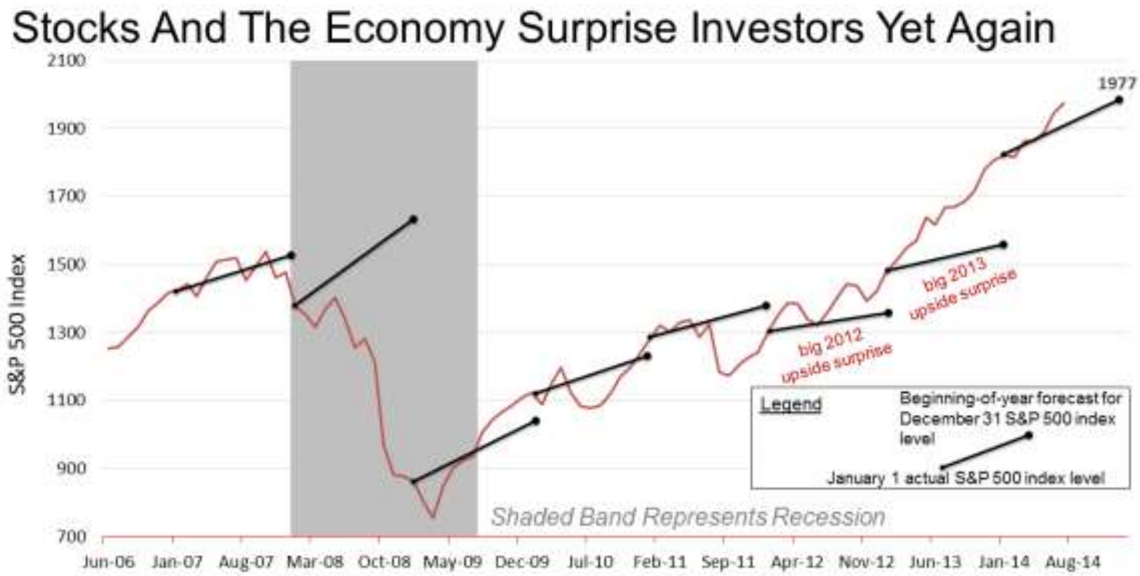
The U.S. economic recovery has led the worldwide economic recovery. Predictions made five years ago that the new millennium had ushered in an era that spelled an end to the American Century were wrong.



Looking at stock markets globally, the second quarter's biggest winners were Emerging Markets (+6.5%) and stocks in developed countries in Asia Pacific (+5.5%), compared to the S&P 500's +4.7%. The Eurozone lagged, up just +1.3%. To put this in perspective: they're fantastic!



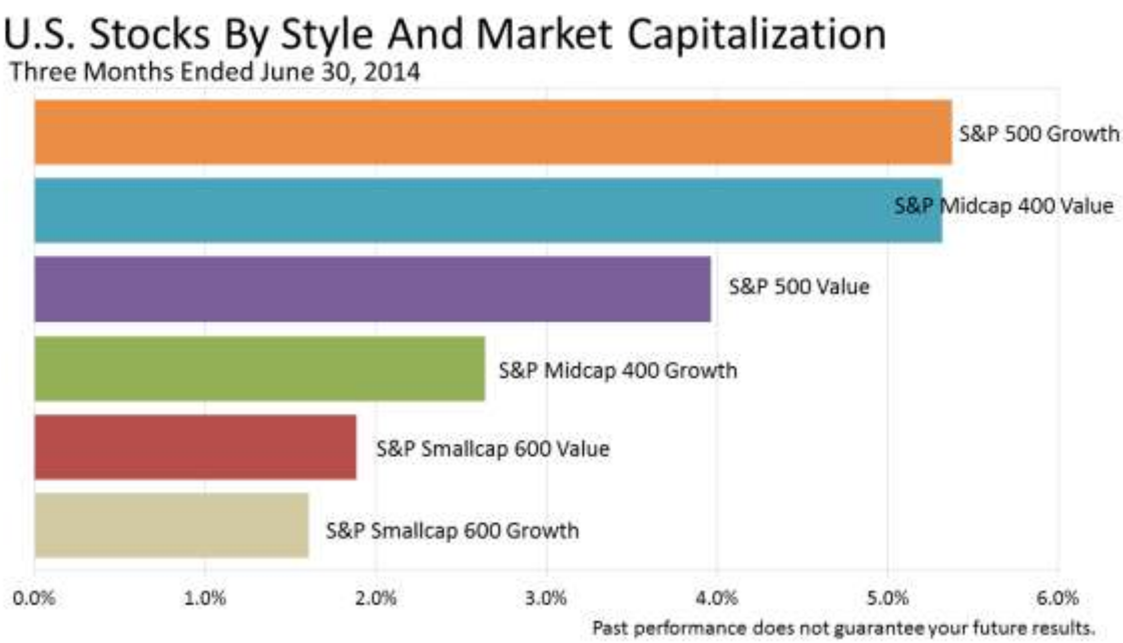
For the five-year period ended June 30, 2014, U.S. stocks returned +113%. No other major market or region in the world compared. Across global markets, the runner-up return over the past five years was 46%, on stocks in Asia Pacific, followed by a +43% return for the Eurozone, +38% for Emerging Markets and +22% for China.



Source: S&P 500 Index data from Standard and Poor's, data through July 7, 2014; Barron's annual surveys of Wall Street strategists' beginning-of-year forecasts since 2007 compiled by Fritz Meyer Economic Research.

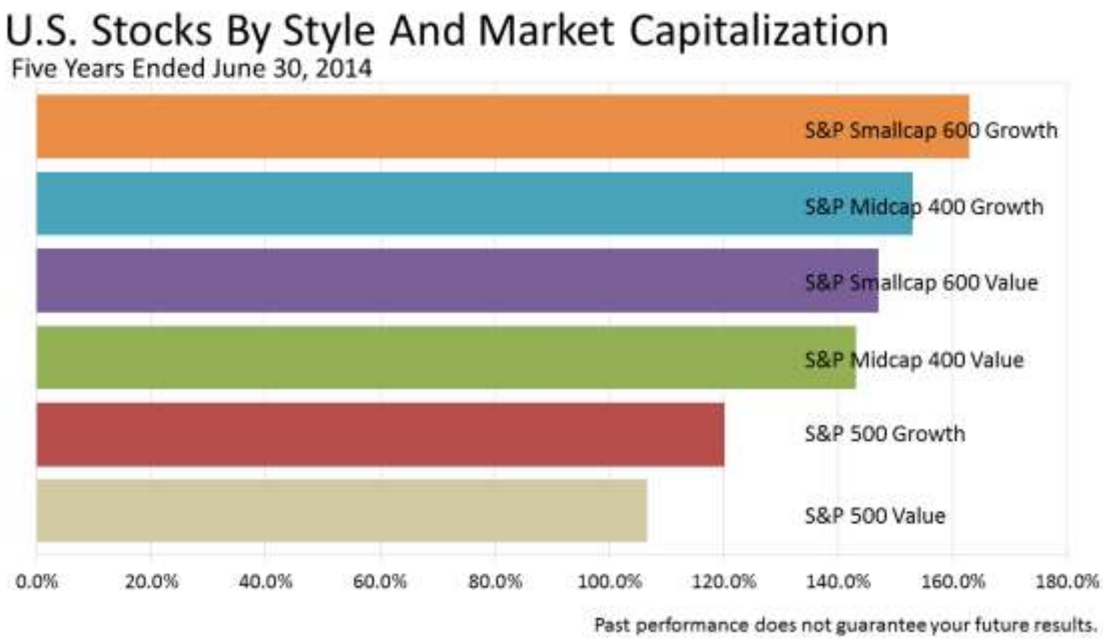
And, once again, this past quarter demonstrated that it is not possible to predict investment performance.

At mid-year 2014, stock gains had soared past the consensus forecast of Wall Street's largest firms for the entire year.

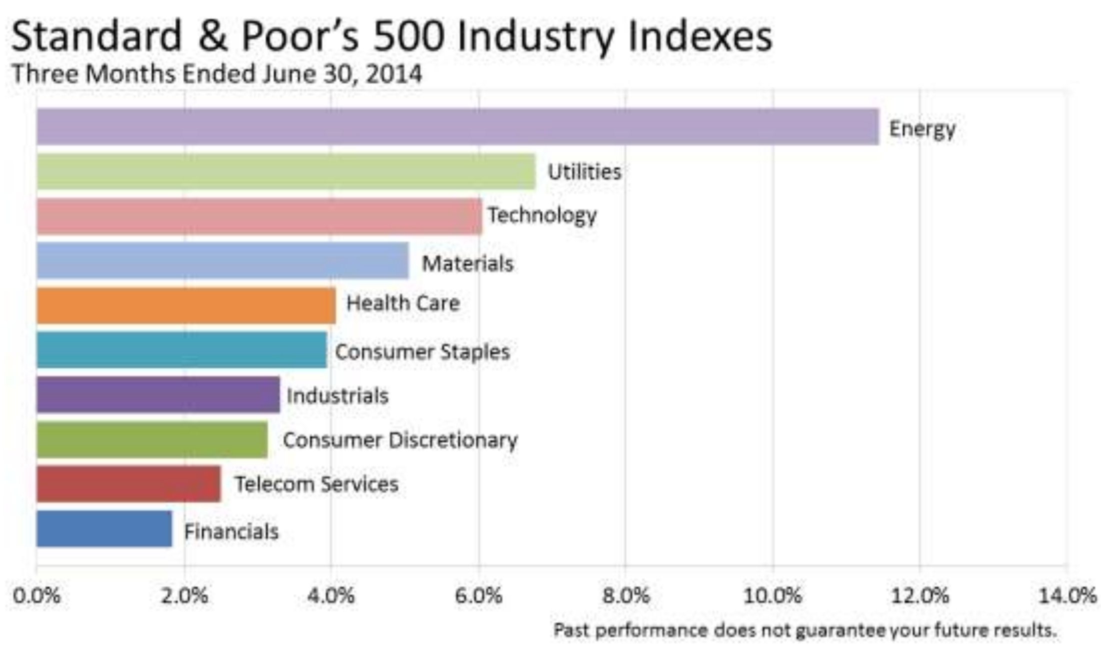


Within the U.S. stock market, large-capitalization stocks stood out. With a second quarter 2014 gain of +4.7%, the big "Blue Chips" of the S&P 500 beat the +3.9% gain on mid-caps.

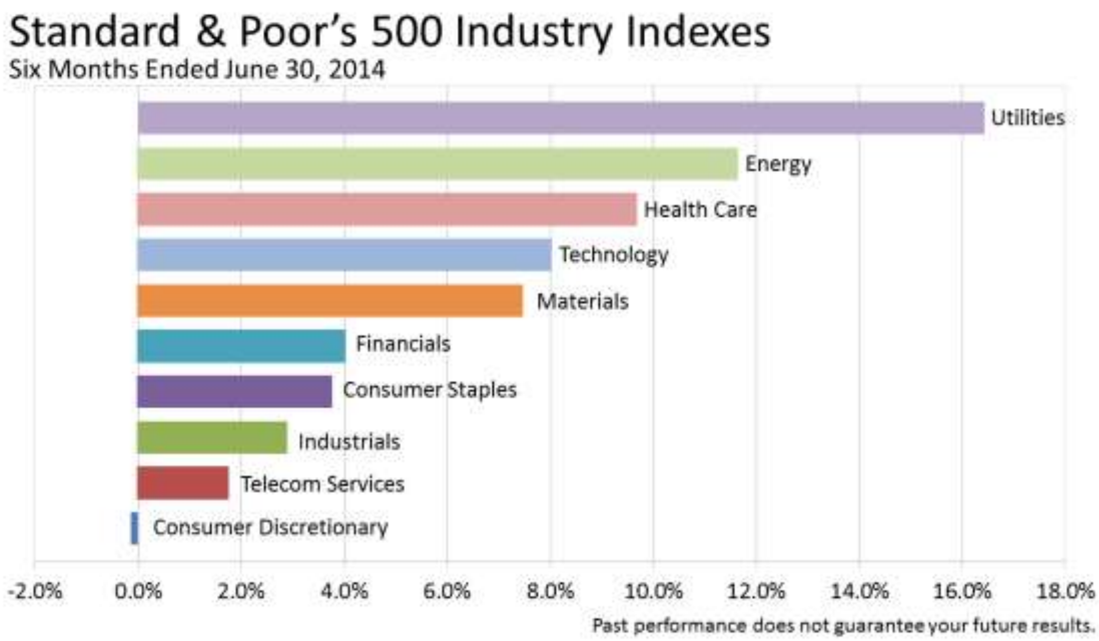
Meanwhile, small-caps trailed with a gain of +1.8%. That's the reverse of the trend of the more-important five-year.



For the five-years ended June 30, 2014, small-cap stocks led with a +154% gain, as mid-caps showed a +148% gain, and were followed by the S&P 500's +113% gain.

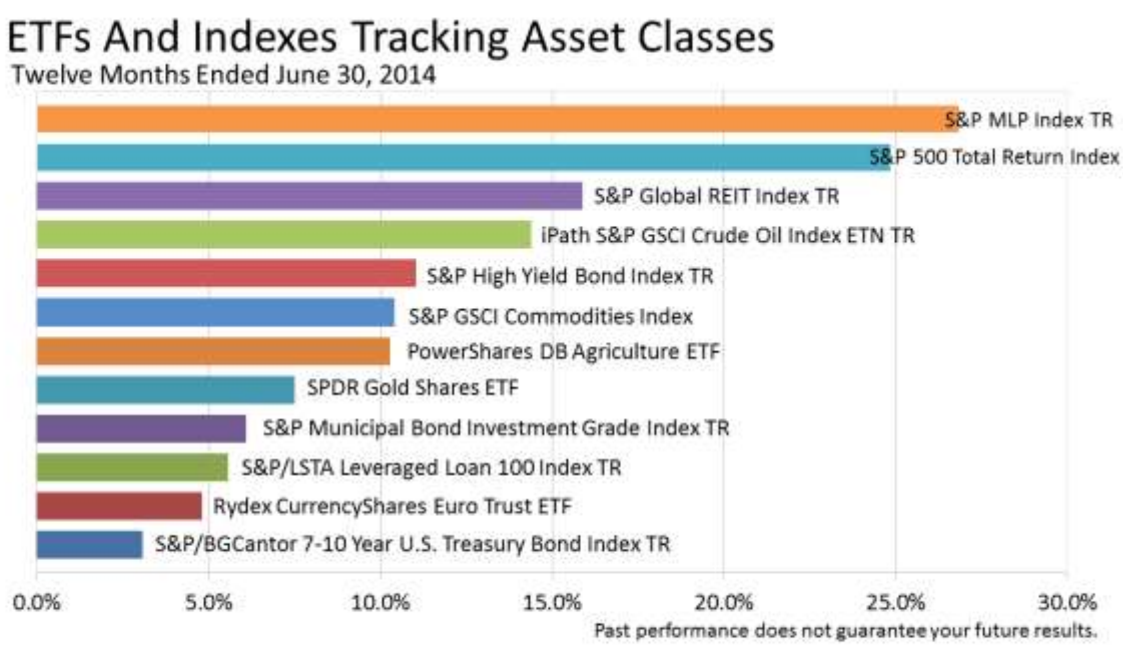


Analyzing the stock market by comparing the stock prices of an array of industry sectors also shows how markets always seem to confound forecasters. Among the S&P 500's 10 industry sectors, energy distinguished itself by surging with a gain of +11% in the second quarter of 2014, followed by utilities (+7%). The financial, telecom, and consumer discretionary sectors lagged.



Poignantly, utilities performed strongly with a +12% gain in the first half of 2014, and they proved the Wall Street "experts" wrong yet again. In a forecast published in Barron's in December 2013, the "top 10" Wall Street strategists' consensus forecast called for utilities to lag in 2014. It was thought that a rise in bond yields would hurt income-oriented stocks, but Wall Street's top firms, as you might have guessed, were totally wrong with their forecasts.

When you look at how investments perform as broad asset classes, the big story is real estate. When examining second quarter 2014 returns for a broad range of asset classes, master limited partnerships (MLPs) and global REITs led the pack with whopping gains of +15.2% and +8.3%, respectively, compared to the S&P 500's total return (including dividends) of a very respectable +5.2%. Once again, this illustrates how portfolio diversification can be so beneficial inasmuch as it's impossible to predict the various asset classes' relative performance.



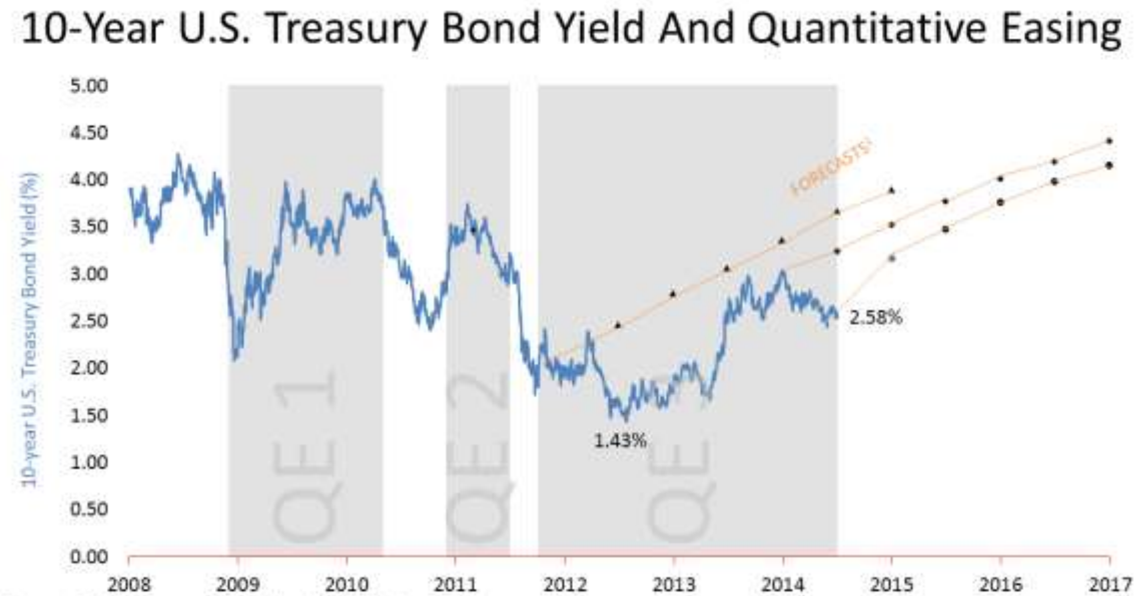
That same comparison among a broad range of asset classes over the one-year period ended June 30, 2014, shows MLPs and the S&P 500 leading with gains of +26.9% and +24.9%, respectively, followed by global REITs and crude oil with gains of +15.9% and +14.4%, respectively. Laggards over the one-year period were U.S. Treasury bonds with a gain of +3.1%, the euro currency with a gain of +4.8% and leveraged loans' gain of +5.6%.

When comparing returns among a broad range of asset classes over the five-year period ended June 30, 2014, the dispersion in returns is startling. At the top are Master Limited Partnerships, global REITs and the S&P 500 with gains of +230%, +158% and 137%, respectively.

The euro currency has actually declined fractionally in value versus the U.S. dollar over the past five years, and crude oil and most other commodities are approximately flat.

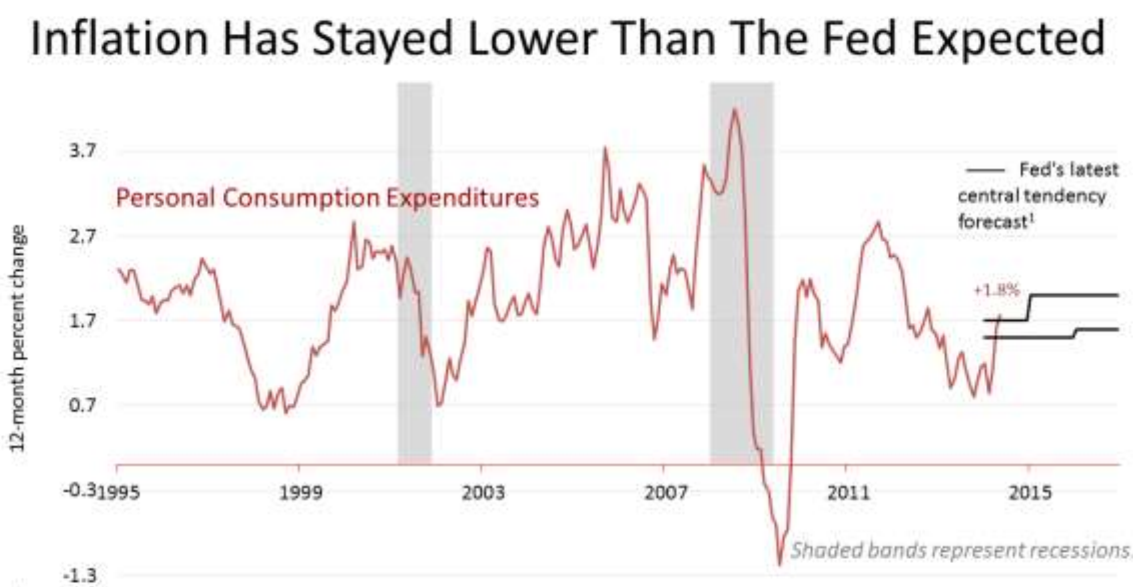
The bond total return indexes, both U.S. Treasury and municipals, are a smidge more than +30%, or about +6% per year.

Over the course of the five-year period ended June 30, 2014, investors experienced unprecedented volatility in gold, as it shot from approximately $900 to $1800 before settling lately around $1300. The gold "story" went like this: QE would ultimately result in massive inflation and debasement of the U.S. dollar. Happily, such predictions have come undone as inflation and bond yields, if anything, have trended much lower than anybody, including the Federal Reserve, had anticipated.



Source: Federal Reserve, through July 1, 2014.
Average of ~50 economists' forecasts from *The Wall Street Journal* survey taken November 2011, January 2014 and June 2014.

The two most obvious reasons for lower-than-expected bond yields are that the rate of inflation, until just the last two months, had come in well below what the Fed and private economists had been expecting, and the net new supply of U.S. Treasury bonds has contracted dramatically with falling federal deficits, even as global demand for bonds has steadily expanded.



[1] FOMC economic projection released June 18, 2014, meeting minutes.
Source: Bureau of Economic Analysis, data through May 2014.

The personal consumption expenditures deflator, the best measure of inflation at the consumer level, dropped way below the Fed's predicted lower bound. Meanwhile, Janet Yellen has made it clear that the Fed does not expect inflation to pick up appreciably as long as slack remains substantial in U.S. labor markets, which is apt to be the case for some time.

A second significant factor weighing on bond yields stems from the big drop in the federal government's funding requirements. Federal deficits have contracted significantly post-recession. From a record deficit of $1.4 trillion in 2009, the deficit is expected to be slashed in half – just $649 billion this year. According to OMB's latest forecast, the annual budget deficit will decline annually until bottoming out in 2018 at $400 billion.

Source: Office of Management and Budget, Table S-1 of *The Budget for Fiscal Year 2015*, dated March 4, 2014.

The net effect of smaller deficits on the U.S. Treasury bond market: Through 2018, the supply of five- 10-year bonds is expected to stay flat. This will happen in a time when demand for U.S. Treasury bonds is growing globally, and is accompanied by shrinking German bond yields, the main global sovereign competitor to the U.S.

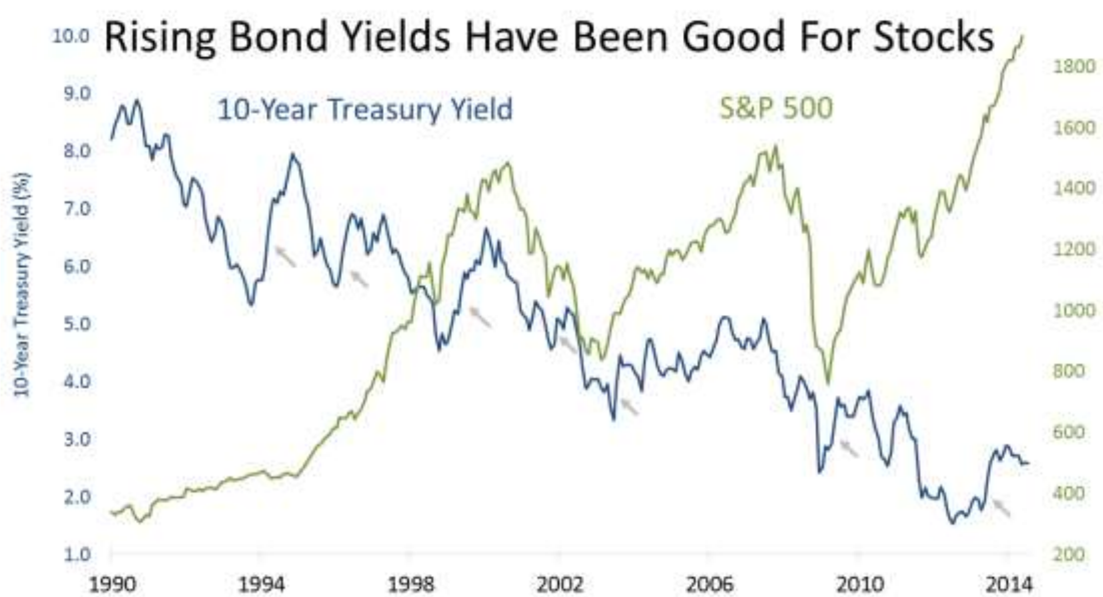
What if, as a consequence of the Fed's now explicit goal to end QE by October of this year, bond yields do begin to rise? This is a question that has confused even the most sophisticated investors, including one famous financial reporter, E.S. Browning. Browning, one of The Wall Street Journal's most esteemed reporters, in the March 24th edition of that newspaper wrote: "Rising yields push up market rates, hurting businesses, banks and investors who use borrowed money. Higher yields are bad for both stock and bond prices." Browning, thus, gives voice to the conventional wisdom and it's largely wrong.

[1]The differential between the interest rate on Fed Funds (short term) and the 10-year Treasury bond (long term).
Sources: NBER; Federal Reserve data through June 2014.

Regarding interest rates, it is important to distinguish between short-term rates and long-term bond yields. The differential between the two is the crucial measure when it comes to assessing the economic and market outlook. The blue line in the chart above represents the "yield curve" – the differential between short-term rates and long-term yields.

It is obvious that when the differential has been large – when the yield curve has been steep –the economy grew robustly. Conversely, when the differential was small or negative – when the Fed has ratcheted short-term rates higher to converge with bond yields – the resulting flat or inverted yield curve preceded recessions.

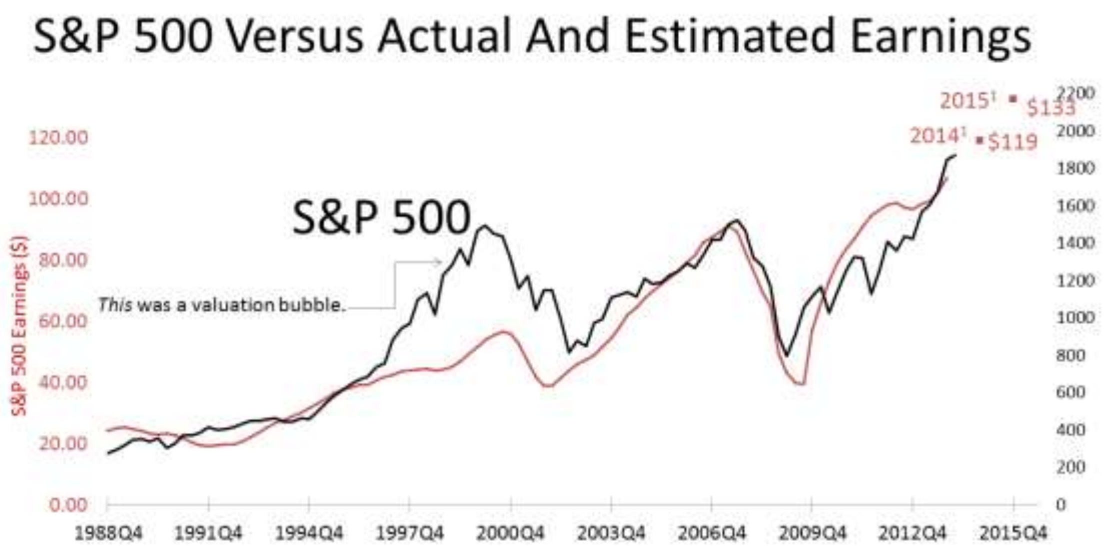
Today, and for the foreseeable future, the yield curve is and likely to remain steep. Janet Yellen has made that clear. This strongly suggests continued healthy economic growth and a favorable climate for investing in stocks.



Sources: Standard and Poor's; Federal Reserve Bank of St. Louis, through July 1, 2014.

The notion that higher bond yields are bad for stock prices is an assumption that is obviously false given the historical record shown above. In the 23-year period covered by the chart, every time bond yields (blue line) have been in rising mode, the stock market (green line) has been in bull-market mode.

To be clear, rising yields have been symptomatic of improving economic momentum, hence are consistent with economic expansion and a healthy stock market, although the media so often get this exactly wrong. It's when the Fed starts to deliberately close the gap between short- and long-term bond yields – by raising the Fed Funds target rate – that you'd have to worry about the restrictive effects of Fed policy on the economy and stocks.



[1] Estimated 2014 and 2015 bottom-up S&P 500 earnings per share as of June 26, 2014: for 2014, $119.47; for 2015, $132.96. Sources: Yardeni Research, Inc. and Thomson Reuters I/B/E/S survey of consensus estimates. Standard and Poor's for index price data through July 1, 2014; and actual earnings data through March 2014.

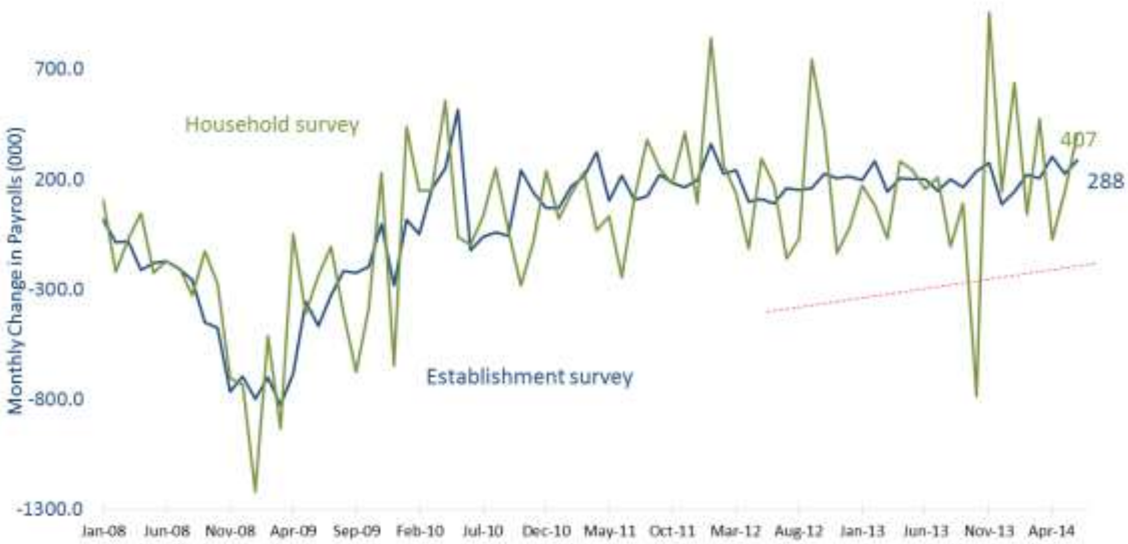
In the short term, many factors can influence the direction of stock prices, not least of which is investor emotion. In the long term, however, it is earnings — plain and simple — that drive stock prices.

Put another way: Applying the price/earnings multiple to the red line (earnings) in the following chart caused us to experience the black line, the S&P 500 price index.

The dramatic earnings recovery from the 2009 bottom that you see here is precisely what accounts for the stock market climbing the wall of worry over the last five years.

This chart also provides a useful illustration of how dramatically stretched the market's price-earnings ratio became at the peak of irrational exuberance in the late 1990s and 2000. Today, Wall Street analysts' estimates for S&P 500 earnings this year and next year are indicated in the red squares. On the assumption that these estimates will prove to be at least ballpark-accurate, one could reasonably see stock prices being pulled higher by rising earnings in the period ahead.

After repeatedly showing you that forecasting is unwise, our intention here is not to forecast stock prices, because there really are many unpredictable factors that could change the outlook in an instant — like terrorism, unrest in the Middle East, and great unknown risks. However, this chart does illustrate that despite the terrific run stocks have had, they are not stretched in value compared to underlying earnings. And, if earnings continue to come in at expected levels, this long, unlikely bull market could continue its already historic run.

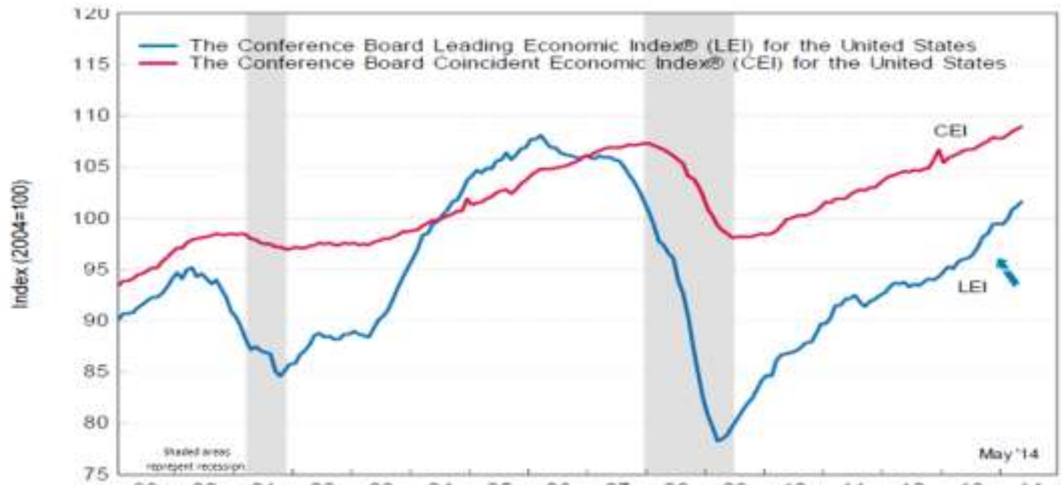


Source: Bureau of Labor Statistics. Data through June 2014.

As for the economy's momentum, the data -- broadly speaking -- are suggesting continued strength in the months and quarters ahead. The important monthly ISM purchasing managers' indexes were both positive for June, and a sub-index measuring new orders was even stronger, suggesting healthy production ahead.

Car sales surged in June and home construction is picking up gradually. Household net worth is back to slightly above its long-term trend-line and hitting new highs. And, believe it or not, the Federal Reserve's litmus-test for the American consumers' ability to spend – the financial obligations ratio – shows that Americans' ability to cover their monthly "nut" has rarely been better.

Household deleveraging is history. Personal income and spending have been trending steadily higher and credit card debt is back to growing at a pre-recession clip. June's new jobs data on both of the government's monthly surveys was very encouraging.



The Conference Board Leading Economic Index® (LEI) components: 1) average weekly hours worked, manufacturing; 2) average weekly initial unemployment claims; 3) manufacturers' new orders – consumer goods and materials; 4) ISM index of new orders; 5) manufacturers' new orders, nondefense capital goods; 6) building permits – new private housing units; 7) stock prices, S&P 500; 8) Leading Credit Index™; 9) interest rate spread; 10-year Treasury less fed funds; 10) index of consumer expectations. Source: ©The Conference Board. Data through May 2014, released June 19, 2014.

An array of forward-looking economic data, as captured by the latest index of leading economic indicators released June 19, 2014, was that the pace of economic growth is likely accelerating.

Disclosures:

Our firm regularly publishes research reports like this one from independent economist Fritz Meyer. Meyer previously served as senior strategist at one of the world's largest investment companies. The ideas are not financial advice and are presented for educational purposes.

Indices are unmanaged and not available for direct investment. Past performance is not indicative of future results. This information is from sources we believe to be reliable, but we cannot guarantee or represent that it is either accurate or complete. Opinions provided are those of the author—employed by Advisor Products, Inc.—and not necessarily those of your financial advisor.

Investments with higher return potential carry greater risk for loss.

Investing in small companies involves greater risks not associated with investing in more established companies, such as business risk, significant stock price fluctuations and illiquidity.

Foreign securities have additional risks, including exchange rate changes, political and economic upheaval, the relative lack of information about these companies, relatively low market liquidity and the potential lack of strict financial and accounting controls and standards.

Investing in emerging markets involves greater risk than investing in more established markets, such as risks relating to the relatively smaller size and lesser liquidity of these markets, high inflation rates, adverse political developments and lack of timely information.

Fluctuations in the price of gold and precious metals often dramatically affect the profitability of the companies in the gold and precious metals sector. Changes in political or economic climate for the two largest gold producers, South Africa and the former Soviet Union, may have a direct effect on the price of gold worldwide.