



## Third Quarter 2014

### Review and Outlook

This report is somewhat abbreviated. As some of you know, my husband is in the hospital after suffering a stroke in early September. Therefore, this review has been delayed.

As I indicated in the last newsletter, investors had not experienced significant volatility in stock prices or significant declines in recent memory. Over the last couple of weeks, circumstances have changed. Due to weakness in Europe (particularly Germany, which has been the mainstay of European economic strength), global stock markets started declining fairly steadily since the beginning of October. As a result, the gains achieved for 2014 have largely been erased. As of October 15, the Dow Jones Industrial Average was down 2.6%, the Standard & Poor's 500 was down 0.81%, and the NASDAQ Composite was down 0.28%. The Dow Jones Utility Average was down 1.6% (this index is associated with electric and natural gas utility providers). (Note: these are price changes, and therefore, exclude the positive returns of any dividend income.)

Additional issues dragging down global stock prices are the Ebola virus, unrest in the Middle East (and the rise of ISIS/ISIL), uncertainty associated with the health of North Korea's dictator, concerns about possible increases in bond yields, Russia's ambitions in the Ukraine and possibly other neighboring countries that were formerly satellites of the USSR, the slowdown in China's growth rate, concerns about China's financial system (i.e. unrecognized bad debts), concerns about illegal immigration on the Mexican/Texas border, and international terrorism.

Earnings season in the United States has begun in earnest. Reports are mixed. Wal-Mart is suffering due to declines in food stamp (i.e. SNAP – the Supplemental Nutrition Assistance Program) spending. Large financial companies (J.P. Morgan, Bank of America and Citigroup) revealed that their stockholders may be tapped for additional penalties associated with the banking and housing crisis in 2008.

Results of the midterm elections coming up in early November are also a wild card.

I have been allowing some cash to build up in client accounts, particularly for clients who are in or near retirement. As I have mentioned in previous newsletters, I have been fairly cautious in my investment selections. I am cautious near term due to all of the uncertainties mentioned above, as well as the stock market's valuation (by comparing the current price-to-earnings ratio to historical norms), and a potential slowdown in U.S. corporate earnings.

The recent strength in the U.S. dollar has caused international investing to look less attractive to U.S. investors. The strong dollar has also put pressure on commodity prices, particularly oil. Lower prices at the gasoline pump will translate into increased spending power for U.S. citizens.

## Investment Strategy

- We are watching for a reasonable entry point into the fixed-income market, and for now, prefer to buy short term bonds to avoid big declines in bond values as interest rates continue to rise. In fact, for many of our clients, we are keeping cash in money market funds, rather than in short term U.S. Treasury Notes, to preserve investment flexibility. We are also keeping some cash on the sidelines, as well as selling stocks that we no longer want to hold, while searching for purchase candidates.
- We have identified a couple of short term bond funds with relatively stable prices that might be suitable for money that should be invested in the bond market, that pay about a 1% dividend yield. The downside of these mutual funds is that there is a short-term redemption fee. The upshot: unless a client is willing to retain these mutual funds for an extended period, they are not really good substitutes for cash.
- We will emphasize high-quality bonds (A-rated or better) when buying bonds for clients is appropriate. We have, in the past purchased preferred stocks and lower-quality bonds for income on a limited basis, but only when the risks associated with these types of securities appear reasonable.
- While we may buy bonds from time to time, our emphasis will be on finding quality stocks that will provide a steady, or even rising, stream of dividends for our income-oriented investors. We will be on the lookout for companies with strong financial strength and the ability to raise their dividends.
- Occasionally, there may be interesting stocks that are either undervalued or have huge long-term growth potential that we purchase to boost clients' investment returns but may pay no dividends, or almost no dividends.
- We believe that a long-term strategic position in Materials and Energy stocks is appropriate.
- We believe that a rise in stock prices will generally be tied to improvements in corporate earnings (although low bond yields have played a big role in stock valuations). *Occasionally, one or more unpredictable events or circumstances may cause a temporary stock market decline. When such a decline occurs, we will take*

*advantage of such opportunities to pick up bargains. But by the same token, if the decline appears to be associated with a correction or a bear market, we will allow cash to build in client accounts or be a seller of stocks.*

- We believe that this is a stock-picker's market that favors active management of sector weights and is unfavorable to index funds.
- We will sell stocks when (1.) they appear to be overvalued, (2.) substitution of a stock in one industry sector for another makes sense in order to de-emphasize industry sectors in which there may be fundamental weakness and (3) when it makes sense to increase cash or bonds in a client's portfolio and to de-emphasize stocks.
- Beginning In 2012, we saw a trend away from high-yielding stocks and towards lower-quality issues with little or no dividend. In the last couple of months, it appears that dividend-oriented stocks are back in vogue. Weakness in dividend-oriented stocks due to tax law changes may have run its course. Investors with high income requirements should come to expect that the investment performance of stocks paying above-average dividends will diverge from the major market averages. Investors should consider their goals, first and foremost, and not try to chase notoriously volatile market returns.

*Note: Changes appear in italics.*

## **Disclosure of Current Individual Stock Holdings**

Individual stock holdings in accounts in which I have a direct beneficial interest is noted below. Stocks *in italics* are held in the accounts of a family member. The activity is current as of October 16, 2014, 2014.

### **Holdings:**

*A T & T Inc.*

A, T & T, Inc. (Inh.)

*Alexandria Real Estate Equities*

*Altria Group, Inc.*

Altria Group, Inc. (Inh.)

American Electric Power (Inh.)

*Anheuser-Busch InBev*

*Annaly Capital Mgmt.*

Annaly Capital Mgmt. (Inh.)

*Apache Corporation*

*Banco Santander*

*Bank of America*

*Baxter International, Inc.*

*Berkshire Hathaway Cl. B.*

Bristol Myers (Inh.)

*CVX Corporation*  
*Canadian Natural Resources*  
*Canadian Pacific Railway Ltd.*  
*Chevron Corporation.*  
*Cisco Systems, Inc.*  
*Coca-Cola (Inh.)*  
*Conagra (Inh.)*  
*Costco*  
*Cullen Frost Bankshares*  
*Cummins, Inc.*  
*Dominion Resources Inc.*  
*Duke Energy Corp.*  
*DuPont(E.I.) (Inh.)*  
*eBay, Inc.*  
*Enbridge, Inc.*  
*Excelon (Inh.)*  
*Flowers Foods Inc.*  
*Ford Motor Company*  
*Frontier Corp. (Inh.)*  
*General Electric*  
*Gilead Sciences*  
*Intuitive Surgical*  
*Johnson & Johnson (Inh.)*  
*Kansas City Southern*  
*Kimberly-Clark Corp.*  
*Liberty Property Trust (Inh.)*  
*Lincoln National Corp.*  
*Mac-Cali Realty Corp.*  
*McDonald's*  
*Merck & Co. Inc.*  
*MetLife, Inc.*  
*MicroSoft (Inh.)*  
*MTS Corporation*  
*National Grid, Plc. (Inh.)*  
*Norfolk Southern Corp.*  
*PepsiCo Incorporated (Added, Inh.)*  
*PetSmart*  
*Pfizer Incorporated.*  
*Philip Morris International, Inc.*  
*Range Resources*  
*Realogy Holdings Corp.*  
*Reynolds American, Inc. (Inh.)*  
*Rio Tito PLC Spon. ADR*  
*Schlumberger Ltd.*

*Spectra Energy*  
*The TJX Companies, Inc.*  
Tractor Supply  
VF Corp. (Inh.)  
*Verizon Communications*  
Vertex Pharmaceuticals  
*W. W. Grainger*  
Walgreen (Inh.)  
*Wells Fargo & Co., Inc.*  
*Whiting Petroleum Corp.*

Purchases included General Electric, Gilead Sciences, International Flavors and Fragrances, Realogy Holdings Corp., Starbucks and The TJX Companies, inc. Sales included ABB, Ltd., PepsiCo (Reduced) and Potash Corp.. **Note that some assets are new due to an inheritance (noted as Inh. after the stock name) which was partially distributed from an estate, and this list may change due to additional stocks from that inheritance that will eventually be distributable.**

**Offer of Form ADV:** As always, clients are welcome to request our form ADV, Parts 2A and 2B.

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**October 16, 2014, 2014**

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**Labrador Investments, LLC**  
**Financial Market Trends**  
**9/30/2014**

<b>U.S. Treasury Yields</b>	<b>6/30/14</b>	<b>9/30/14</b>	<b>3rd Qtr. Change</b>	<b>12/31/13</b>	<b>YTD Change</b>
90 day T-Bill	0.02%	0.005%	-0.02%	0.07%	-0.07%
2 Year T-Note	0.45%	0.575%	0.13%	0.39%	0.19%
10 Year T-Note	2.51%	2.502%	-0.01%	3.04%	-0.53%
30 Year T-Bond	3.34%	3.208%	-0.13%	3.98%	-0.77%

<b>Stock Market Indices</b>	<b>6/30/14</b>	<b>9/30/14</b>	<b>3rd Qtr. Change</b>	<b>12/31/13</b>	<b>YTD Change</b>
Dow Jones Industrial Average	16954.27	17042.9	0.5%	16576.66	2.8%
Standard & Poor's 500	1962.61	1972.29	0.5%	1848.36	6.7%
Nasdaq Composite	4368.68	4493.39	2.9%	4176.59	7.6%
Dow Jones Utility Index	565.44	551.29	-2.5%	490.57	12.4%

<b>Bonds Market Indices (52 wks. as of 1/2/14)</b>	<b>YTD Change</b>
Barclays Corporate Intermediate	3.61%
Barclays Corporate Long Term	11.22%
Barclays Aggregate	3.93%

<b>Foreign Stock Markets</b>	<b>6/30/14</b>	<b>9/30/14</b>	<b>3rd Qtr. Change</b>	<b>3rd Qtr. Currency Adjusted</b>	<b>YTD Change</b>
FTSE100 (United Kingdom)	6743.94	6622.72	-1.8%	-7.2%	0.0%
DAX (Germany)	9833.07	9474.30	-3.6%	-11.0%	2.9%
Nikkei Dow (Japan)	15162.1	16173.52	6.7%	-1.2%	10.1%

<b>Foreign Currencies</b>	<b>6/30/14</b>	<b>9/30/14</b>	<b>3rd Qtr. Dollar's Perf.</b>	<b>12/31/13</b>	<b>YTD Change</b>
British Pound (\$/Pound)	1.7151	1.6213	5.8%	1.6563	2.2%
Euro (\$/Euro)	1.3679	1.2631	8.3%	1.3759	8.9%
Japanese Yen (Yen/\$)	101.5258	109.6477	8.0%	105.28	4.1%

<b>Commodities</b>	<b>6/30/14</b>	<b>9/30/14</b>	<b>3rd Qtr. % Change</b>	<b>12/31/13</b>	<b>YTD Change</b>
Gold Spot Price/Oz. (London AM Fixing)	\$ 1,313.00	\$ 1,210.00	-7.8%	\$ 1,201.50	0.7%
West Texas Int. Crude Oil/bbl	\$ 106.07	\$ 91.19	-14.0%	\$ 98.61	-7.5%
Natural Gas	\$ 4.43	\$ 4.14	-6.5%	\$ 4.21	-1.7%

**Labrador Investments, LLC**  
**Focus and Holdings List**  
**September 30, 2014**

<b>NAME</b>	<b>06/30/14</b>	<b>06/30/14</b>	<b>% CHANGE</b>	<b>YIELD</b>
CF Industries Holdings, Inc.	\$ 240.53	\$ 279.22	16.1%	1.6%
E. I. du Pont de Nemours and Company	\$ 65.44	\$ 71.76	9.7%	2.8%
Freeport-McMoRan Copper & Gold Inc.	\$ 36.50	\$ 32.65	-10.5%	3.4%
Nucor Corporation	\$ 49.25	\$ 54.28	10.2%	2.9%
Praxair Inc.	\$ 132.84	\$ 129.00	-2.9%	2.0%
Rio Tinto plc	\$ 54.28	\$ 49.18	-9.4%	3.8%
Weyerhaeuser Co.	\$ 33.09	\$ 31.86	-3.7%	2.8%
CSX Corp.	\$ 30.81	\$ 32.06	4.1%	2.2%
Eaton Corporation plc	\$ 77.18	\$ 63.37	-17.9%	2.9%
Fluor Corporation	\$ 76.90	\$ 66.79	-13.1%	1.2%
General Electric Company	\$ 26.28	\$ 25.62	-2.5%	3.5%
Honeywell International Inc.	\$ 92.95	\$ 93.12	0.2%	2.0%
Illinois Tool Works Inc.	\$ 87.56	\$ 84.42	-3.6%	2.0%
Kansas City Southern	\$ 107.51	\$ 121.20	12.7%	1.0%
The Manitowoc Company, Inc.	\$ 32.86	\$ 23.45	-28.6%	0.3%
Norfolk Southern Corporation	\$ 103.03	\$ 111.60	8.3%	2.2%
Union Pacific Corporation	\$ 99.75	\$ 108.42	8.7%	2.0%
AT&T, Inc.	\$ 35.36	\$ 35.24	-0.3%	5.2%
Frontier Communications Corporation	\$ 5.84	\$ 6.51	11.5%	6.1%
Verizon Communications Inc.	\$ 48.93	\$ 49.99	2.2%	4.2%
Darden Restaurants, Inc.	\$ 46.27	\$ 51.46	11.2%	4.6%
Ford Motor Co.	\$ 17.24	\$ 14.79	-14.2%	2.9%
Frisch's Restaurants, Inc.	\$ 23.60	\$ 28.30	19.9%	3.1%
The Home Depot, Inc.	\$ 80.96	\$ 91.74	13.3%	2.3%
Leggett & Platt, Incorporated	\$ 34.28	\$ 34.92	1.9%	3.6%
Lowe's Companies Inc.	\$ 47.99	\$ 52.92	10.3%	1.9%
McDonald's Corp.	\$ 100.74	\$ 94.81	-5.9%	3.4%
Starbucks	\$ 77.55	\$ 75.46		0.0%
Target Corp.	\$ 57.95	\$ 62.68	8.2%	3.4%
Tractor Supply Company	\$ 60.40	\$ 61.51	1.8%	1.0%
V.F. Corporation	\$ 63.00	\$ 66.03	4.8%	1.7%
Wal-Mart Stores Inc.	\$ 75.07	\$ 76.47	1.9%	2.6%
Walgreen Co.	\$ 74.13	\$ 59.27	-20.0%	1.7%
Altria Group Inc.	\$ 41.94	\$ 45.94	9.5%	4.7%
Anheuser-Busch InBev SA/NV	\$ 114.94	\$ 110.85	-3.6%	3.7%
The Coca-Cola Company	\$ 42.36	\$ 42.66	0.7%	3.1%
ConAgra Foods, Inc.	\$ 29.68	\$ 33.04	11.3%	3.3%
Flowers Foods, Inc.	\$ 21.08	\$ 18.36	-12.9%	2.5%
The J. M. Smucker Company	\$ 106.57	\$ 98.99	-7.1%	2.5%
Kellogg Company	\$ 65.70	\$ 61.60	-6.2%	3.2%
Kimberly-Clark Corporation	\$ 111.22	\$ 107.57	-3.3%	3.2%
Kroger	\$ 49.43	\$ 52.00	5.2%	1.3%
Pepsico, Inc.	\$ 89.34	\$ 93.09	4.2%	2.9%
Philip Morris International, Inc.	\$ 84.31	\$ 83.40	-1.1%	4.6%
The Procter & Gamble Company	\$ 78.59	\$ 83.74	6.6%	3.2%
Reynolds American Inc.	\$ 60.35	\$ 59.00	-2.2%	4.8%
BP plc	\$ 52.75	\$ 43.95	-16.7%	4.7%
Canadian Natural Resources Limited	\$ 45.91	\$ 38.84	-15.4%	1.9%
Cenovus Energy Inc.	\$ 32.37	\$ 26.88	-17.0%	3.1%
Chevron Corporation	\$ 130.55	\$ 119.32	-8.6%	3.3%

Encana Corporation	\$ 23.71	\$ 21.21	-10.5%	1.3%
EnSCO International	\$ 55.57	\$ 41.31		5.9%
Exxon Mobil Corporation	\$ 100.68	\$ 94.05	-6.6%	2.8%
National Oilwell Varco, Inc.	\$ 82.35	\$ 76.10	-7.6%	2.2%
Range Resources Corporation	\$ 86.95	\$ 67.81	-22.0%	0.2%
Stone Energy Corp.	\$ 46.79	\$ 31.36	-33.0%	
American Express Company	\$ 94.87	\$ 87.54	-7.7%	1.2%
Annaly Capital Management, Inc.	\$ 11.43	\$ 10.68	-6.6%	10.7%
Cullen/Frost Bankers, Inc.	\$ 79.42	\$ 76.51	-3.7%	2.7%
Equity Residential	\$ 63.00	\$ 61.58	-2.3%	3.1%
Fifth Third Bancorp	\$ 21.35	\$ 20.02	-6.2%	2.6%
Liberty Property Trust	\$ 37.93	\$ 37.00	-2.5%	5.1%
Mack-Cali Realty Corp.	\$ 21.48	\$ 19.11	-11.0%	2.9%
Realty Income Trust	\$ 44.42	\$ 40.79		0.0%
Sun Life Financial	\$ 36.71	\$ 36.27	-1.2%	3.5%
The Toronto-Dominion Bank	\$ 51.41	\$ 49.39	-3.9%	3.4%
U.S. Bancorp	\$ 43.32	\$ 41.83	-3.4%	2.4%
Vornado Realty Trust	\$ 106.73	\$ 99.96	-6.3%	2.8%
Wells Fargo & Company	\$ 52.56	\$ 51.87	-1.3%	2.7%
Abbott Laboratories	\$ 40.90	\$ 41.59	1.7%	2.1%
AbbVie Inc.	\$ 56.44	\$ 57.76	2.3%	3.2%
Amgen Inc.	\$ 118.37	\$ 140.46	18.7%	1.9%
Baxter International Inc.	\$ 72.30	\$ 71.77	-0.7%	2.8%
Bristol-Myers Squibb Company	\$ 48.51	\$ 51.18	5.5%	2.9%
Intuitive Surgical, Inc.	\$ 411.80	\$ 461.82	12.1%	
Johnson & Johnson	\$ 104.62	\$ 106.59	1.9%	2.8%
Eli Lilly and Company	\$ 62.17	\$ 64.85	4.3%	3.2%
Medtronic, Inc.	\$ 63.76	\$ 61.95	-2.8%	2.0%
Merck & Co. Inc.	\$ 57.85	\$ 59.28	2.5%	3.1%
Meridian Bioscience, Inc.	\$ 20.64	\$ 17.69	-14.3%	4.0%
Pfizer Inc.	\$ 29.68	\$ 29.57	-0.4%	3.6%
St. Jude Medical Inc.	\$ 69.25	\$ 60.13	-13.2%	1.6%
Teva Pharmaceutical Industries Limited	\$ 52.42	\$ 53.75	2.5%	2.3%
Vertex Pharmaceuticals Incorporated	\$ 94.68	\$ 112.31	18.6%	
Zimmer Holdings, Inc.	\$ 103.86	\$ 100.55	-3.2%	0.9%
Immersion Corporation	\$ 12.72	\$ 8.58	-32.5%	
Intel Corporation	\$ 30.90	\$ 34.82	12.7%	2.6%
MTS Systems Corporation	\$ 67.76	\$ 68.26	0.7%	1.8%
Microsoft Corporation	\$ 41.70	\$ 46.36	11.2%	2.6%
Texas Instruments Inc.	\$ 47.79	\$ 47.69	-0.2%	2.6%
American Electric Power Co., Inc.	\$ 55.77	\$ 52.21	-6.4%	3.9%
Dominion Resources, Inc.	\$ 71.52	\$ 69.09	-3.4%	3.6%
Duke Energy Corporation	\$ 74.19	\$ 74.77	0.8%	4.4%
Entergy Corporation	\$ 82.09	\$ 77.33	-5.8%	4.6%
Exelon Corporation	\$ 36.48	\$ 34.09	-6.6%	4.0%
NextEra Energy, Inc.	\$ 102.48	\$ 93.88	-8.4%	3.1%
Spectra Energy Corp.	\$ 42.48	\$ 39.26	-7.6%	3.3%

**Notes:**

Added: None

Deleted: Coach, Now, Inc.

Excludes certain speculative names purchased by one client.