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Maryland Capital Advisors

INVESTMENT COMMENT

2nd Quarter Review and Strategy Update

July 8, 2014

2nd Quarter capital markets were notable for their lack of major excitement. Stock market volatility eased to near all-time lows as markets grinded higher. 2nd quarter and YTD returns were solidly positive in both Risk (stock market) and Low Risk (well-rated, shorter-term bond) investment classes. Quite simply, Risk investments have been bouyed by prospects for future earnings as the economy regains its post-crisis footing and Low Risk investments are comfortable that materially-higher inflation is not in the foreseeable future. *In short, 2014 YTD has been nirvana.*

Selected Asset Classes June 30, 2014	2nd Quarter	2014 YTD
SELECTED RISK ASSET CLASS SEGMENTS		
US Large Cap	+5.1%	+7.2%
US Large Cap Value	+4.9%	+8.1%
US Small Cap	+2.1%	+3.3%
US Small Cap Value	+2.4%	+4.2%
International Large Cap	+4.2%	+4.4%
Emerging Markets	+6.2%	+4.3%
International Real Estate	**+8.8%**	+9.4%
US Real Estate Investment Trusts	**+7.0%**	**+17.8%**
SELECTED LOW RISK ASSET CLASS SEGMENTS		
US Treasury 1-3yr Notes	+0.2%	+0.3%
US Treasury 7-10yr Notes	+2.4%	+5.3%
US Treasury 20-30yr Bonds	**+4.8%**	**+12.9%**
US Treasury Inflation-Protected	+3.7%	+5.8%
Inv Grade Short Duration	+0.9%	+1.7%
Inv Grade Intermediate Duration	+2.1%	+4.5%
Inv Grade Long Duration	**+4.6%**	**+11.3%**
Mortgage-Backed Securities	+2.4%	+4.5%
International Bonds (Non-Dollar)	+2.7%	+5.4%
EQUITY INDICES		
MSCI All-Country World Index	+5.2%	+6.5%
S&P 500 Index	+5.2%	+7.1%
BALANCED PORTFOLIOS		
Vanguard 60/40 Fund	+3.7%	+5.7%
DFA 60/40 Fund	+3.3%	+5.3%
DFA 25/75 Fund	+1.9%	+3.0%
OTHER NOTABLE MARKET DATA		
Gold (ETF)	+3.6%	+10.3%
Emerging Markets Bonds (ETF)	+4.6%	+8.6%
Exchange value of Euro vs US$	-0.6%	-0.4%
Exchange value of Yen vs US$	+1.9%	+3.9%

Source: Bloomberg Professional

Note: Returns include reinvested dividends.

2nd QUARTER CAPITAL MARKETS UPDATE

Domestic and International Real Estate were the best-performing Risk segments this quarter (+7.0%, +8.8%). *US REITs are now +17.8% for 2014, after lagging US Risk segments in 2013 by 30 percentage points.*

Low Risk segments were across-the-board positive. Repeating the 1st Quarter theme, bonds with the greatest interest-rate sensitivity (long duration) generated the highest returns. It is noteworthy that long duration bonds have nearly fully-recovered from 2013's "worst return in 19 years"[1].

The fact that 2013's second-weakest Risk segment and worst-returning Low Risk segment have been 2014's best-performers to-date should serve as a reminder that successful investing avoids falling in or out of favor with any particular segment. A disciplined investment strategy that maintains balanced exposures over time is superior to strategies that attempt to select winning or losing segments and securities.

[1] See "2013 Capital Markets Review" in our January 6, 2014 Investment Comment (LIBRARY tab, maryland.com)

STRATEGY UPDATE
What should investors do at this point? As always, we are measuring current portfolio exposures to Risk segments against their respective targets. *We are nearing the point where some opportunities may arise to sell some of the best-performing segment holdings to adjust allocation percentages back to each portfolio's targeted level.* This is the proverbial "sell-high, buy-low" element of our investment discipline.

Overall, the capital markets are behaving within long-standing norms and the same investment strategy that navigated through challenging markets serves us well during periods of calm, positive returns.

The helpful comments of Paul Cucchissi and Shelley Quade are greatly appreciated