ASCEND

Investment Management, Inc.

Ascend to your financial potential

QUARTERLY INVESTMENT REPORT
June 30, 2014

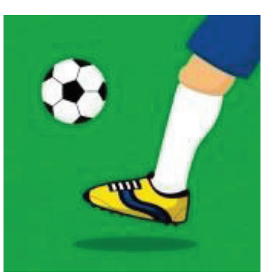
Dear Investor:

Time sure flies when asset values are increasing. Five years ago, when in the thick of the financial crises, time was slower; kind of like dragging a mule through molasses. Now, five plus years into this bull market, stocks' (S&P 500) total return (price plus dividends) have increased more than 175%. And at halftime, i.e., 2014 year–to-date, the score is impressive with the S&P 500 gaining 7%. The last five years seem to have flown by and, though investors' fears are never too far from the surface, some investors are more volubly asking how long these good times can last.

We think it's clear that we are in the later stages of this bull market though we are not convinced it's 'game over' just yet. The ball is still in play as we see both anecdotally and statistically that our economy is indeed in recovery mode.

Here is just one of many accounts that tells a story of a recovering ecnomy. Recently we met with a friend who owns a high end build and design landscape company. She is currently overwhelmed with the numbers of new business contracts and proposals she is dealing with. Her clients are impatiently waiting her call back to discuss their new pools, ponds, terraces, distinctive gardens, and outdoor kitchens. Four years ago business was so slow, that she was in the throes of painfully having to consider an exit from the business she is so passionate about. It's easy at first blush to think that the only beneficiaries of our improving economy and soaring stock market are the wealthiest groups. Our friend employs several crews of workers who are now able to work full-time hours; and she may soon hire additional employees. A rising tide may indeed be lifting all boats.

GO USA!



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Statistically, the economic numbers have been more positive than negative recently, with improvement continuing at a slow but steady pace. We are scoring pretty well with housing. In May new home sales were 18% higher than in April and they increased 17% over last May 2013. This was the largest percentage gain since January of 1992. No doubt about it, residential construction is strong. And lest anyone should feel it is getting ahead of itself, the numbers of new homes built are still 20% below their historical average.

Consumer confidence numbers in May showed continued improvement with confidence at the highest level since January 2008, the depths of the recession. And manufacturing, as tracked by the Purchasing Manufacturing Index (PMI), expanded in May for a 12th consecutive month.

But it's not all rosy and we can't yet fully relax and accept that consumers and manufacturers are completely on solid footing. A recent Bureau of Economic Analysis release revealed a hugely disappointing revision to the first quarter Gross Domestic Product (GDP) which, in turn, triggered a slew of cuts to full year GDP estimates. The revised GDP release was a negative 2.9% year over year rate of growth. This was a revision down from an originally flat estimate followed by a second estimate at a negative 1.5%.

The frigid weather in the first quarter kept people indoors and consumption down, and disappointing exports were also a big drag on the economy. The shocking revision was largely due to a higher expectation of healthcare sign-ups than actually occurred. Despite the poor first quarter, most economists expect the second quarter to show growth at a 3%-4% rate and thoughts of recession are distant.

We are also cautiously optimistic with a May report from the Federal Reserve. It stated that **banks are slowly easing up on their lending standards in response to higher loan demand.** They are easing terms on commercial and industrial loans, commercial real estate loans, and consumer credit and auto loans. We'll worry about lending bubbles when the time comes, but for now we are pleased to see that finally the Fed's accommodative money policies since the recession might actually begin to benefit economic growth.

"O.K., folks, let's move along. I'm sure you've all seen someone qualify for a loan before."

As much as we are cautiously optimistic about our economy, we are also cautiously optimistic about stock prices. As we mentioned earlier, we think stocks have more to run, despite being in the latter stages of a bull market, but we wouldn't be surprised to see a temporary pull-back before the year ends. Stock prices are not overly expensive, corporate earnings are relatively strong, the Fed continues to accommodate growth, and bond interest rates are rooted at low levels thanks to treasury bond demand vis-à-vis sovereign debt weakness across the globe.

For the most nervous out there, let us remind you that the average length of bull markets since 1921 is 62 months while our current bull market is a little more than 65 months long. A few previous bull markets outpaced 65 months by a long shot. But we don't hang our hat on statistics for statistics sake; we care about how reasonable a stock is priced in the market in relation to its growth prospects. It is absolutely more difficult today to find comfortable purchase prices than five years ago, but by the same token, prices of many excellent companies are not absurdly high. If we do get a temporary sell-off we will be opportunistic and buy accordingly. Likewise, if market prices climb into nosebleed territory, we will sell accordingly.

The market works in strange ways and we think that the very reason that stocks are now chugging along with reasonable price multiples, is because economic growth is so sluggish that stock buyers are not yet willing to catapult stocks into the land of irrational prices. When – not if - that happens it is important that your assets are managed by managers that have an investment discipline at the forefront of their investment philosophy.

Have a happy Fourth of July weekend!

Sincerely,

Ellen P. Le, CFA
President

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HOW MUCH IS ENOUGH?

If we had a nickel for every time someone asked us how much money is enough to retire on… People want an easy answer. Is it one million dollars? Maybe the magic number is three million dollars. The truth is, it depends. It depends on your financial asset base, monthly expenses in retirement, and sources of income in retirement such as social security and pension.

It pays to fully understand your current expenses so that you can best estimate future retirement expenses. Remember to increase your expectations for health care expenses in retirement and to reduce expenses that will likely go away in retirement, such as mortgage payments and children's expenses.

It also makes good sense to work with a financial planner who understands the vitally important role that social security plays in your retirement. At Ascend we incorporate social security optimization strategies for our clients. There are a variety of complex strategies for taking benefits and the social security department will not offer them to you unsolicited. There are optimal ways to take your social security benefit based on your age and health; and for couples there are a variety of clever combination strategies that can keep you from literally leaving thousands of dollars on the table.

Once you have a handle on how much income you will receive from social security and pensions in retirement and how much your expenses will be in retirement, you can determine how much you will need to supplement any deficit from your assets.

The table below is a simplified look at how much you will need in your retirement pot on the first day of retirement. This assumes that you retire at age 70 and live 25 more years until age 95. It also assumes that your investments continue to grow over those 25 years at an average annual rate of 5%. It's a simplified look for three reasons: (1) it doesn't account for inflation (or health care cost inflation), so to be extra prudent expect your expense requirements to be much higher than you think; (2) it assumes that the markets grow at a consistent 5% per year when quite possibly when you retire the market could be in a down cycle and rack up a few back to back down years, so again, be prudent and plan for a larger pot of money that you think you will need; (3) it doesn't account for leaving money to your heirs.

ANNUAL INCOME NEEDED FROM INVESTMENTS IN RETIREMENT	MONEY NEEDED ON DAY #1 OF RETIREMENT (AT AGE 70)
$40,000	$564,000
$60,000	$846,000
$80,000	$1,128,000
$100,000	$1,409,000
$120,000	$1,691,000
$140,000	$1,973,000
$160,000	$2,255,000
$180,000	$2,537,000
$200,000	$2,819,000

So, for example, if you expect your expenses in retirement to be $80,000 per year, and you expect social security and pension income to bring in $40,000 per year, then you will need to supplement your living expenses with $40,000 per year from your investments. In order to support $40,000 a year of investment consumption for 25 years, you will need about $564,000 at retirement.

Obviously there are many customized scenarios we run for various expectations for retirement age, investment growth rate, and income requirements. Also, we don't show here the really fun part, which is determining how much you need to invest every year to get to your pot of gold on day #1 of retirement.

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