HORAN

CAPITAL ADVISORS

Investor *Letter*

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In the spring I have counted one hundred and thirty-six different kinds of weather inside of four-and-twenty hours. It was I that made the fame and fortune of that man that had that marvelous collection of weather on exhibition at the Centennial…And as to quantity---well, after he had picked out and discarded all that was blemished in any way, he not only had weather enough, but weather to spare; weather to hire out; weather to sell; to deposit; weather to invest; weather to give to the poor.

Samuel Clemens, a.k.a. Mark Twain

This paragraph is being added on Tax Day, Tuesday, April 15th as we complete this letter and ready it for you our valued clients and friends. Those of us in Cincinnati awoke to a slight dusting of snow on the ground this morning where two days ago we were raking our yards and cleaning out the garage in shorts. The quote above came from a speech by Mark Twain in 1876 and is believed to be the source of the phrase, "They say if you don't like the weather in {add your geography of choice} now, just wait a few minutes." And, we believe this phrase fits perfectly with the market so far this year. From our point of view, and many companies as well, the weather had a significant negative impact on economic and business activity during the first quarter.

Like the New England weather of which Mr. Twain spoke, the markets in the first quarter of 2014 were highly variable, but ended mostly positive. In January, we had a global market sell-off in equities (except for the momentum "darlings" i.e. Facebook) and conversely a bond market rally. In February and half of March, most equity markets rallied, but not bonds. And finally, from mid-March to this writing, leading stocks, sectors and asset classes have become the laggards and vice versa. One may argue it was a necessary breather, particularly in the U.S., as 2013 was such a strong year for equities. The January equity sell-off may have been the result of simple profit-taking, continued tapering language from the Fed, poor weather related spending data or weak Chinese economic data. It is our belief this period of turmoil was not accompanied by significant fundamental economic change and thus was mostly weather related noise.

Benchmark Returns	January 2014	First Quarter 2014	Calendar Year 2013
Equities			
S&P 500 Index	-3.46%	1.81%	32.39%
S&P Midcap 400 Index	-2.12%	3.04%	33.50%
MSCI EAFE Index (Developed International)	-4.03%	0.66%	22.78%
MSCI EEM Index (Emerging Markets)	-6.49%	-0.43%	-2.60%
Commodities			
Dow Jones UBS Commodity Index	0.30%	6.99%	-9.52%
Real Estate			
Cohen & Steers Real Estate Index	4.84%	11.10%	-1.45%
Bonds			
Barclays Capital U.S. Aggregate Index	4.02%	1.84%	-8.83%
*Data provided by Blackrock			

Market rotation

The January sell-off in equities, while reasonably broad-based, missed many of the momentum leaders in social networking, biotechnology and technology. That has not been the case however in the last two months of the quarter and first few weeks of the second quarter. The momentum "darlings" have one-by-one taken the brunt of the selling. The Social Media ETF (SOCL), which was up 64% in 2013, is down approximately 17% in 2014 as we write. Stocks such as Twitter (TWTR) which is down 39% year-to-date and LinkedIn (LNKD) down 22% are leading companies in the Social Media Index. Others, such as Pandora Media (P) and Yelp (YELP) which were both up over 40% this year, are now down. As we mentioned above, biotechnology was invited to leave the party as well. Many early stage biotech companies are down 50% or more from their peak and even S&P 500 members Aegerion (AEGR), down 44% YTD, and Regeneron (REGN), down 19% from its peak, were not immune. The second largest position in the iShares Nasdaq Biotechnology ETF (IBB) is Celgene (CELG) which has been a rewarding holding in client portfolios and whose future prospects we remain positive about. Celgene has not been left out of the sell-off in biotech stocks, falling about 18% this year after returning a market beating 115% in 2013. In evaluating Celgene versus Aegerion and Regeneron, Celgene trades at a price to forward earnings ratio comparable to the market, yet Celgene has faster earnings growth than the market. The other two are valued at over three times the market average valuation level, requiring investors to be certain about the extraordinarily high expected growth rates.

There has been a clear rotation in leadership and many of our recent investment decisions are an effort to capitalize on these changes. These include two late December additions to client portfolios: Piedmont Office Realty (PDM) and Realty Income Trust (O), both real estate investment trusts (REITs). We also eliminated our small-cap U.S. equity exposure late last year based on extended valuation and weaker forward return prospects. Recently, small cap equities are showing signs of weakness relative to U.S. large cap stocks. Looking back to April 2013, the Russell 2000 Index was (at one point) 13% ahead of the return of the S&P 500. This spread is now down to less than 4% due to recent small cap under performance. In the past quarter, we trimmed our oil and gas pipeline exposure, based on strong gains and added to foreign market equities and our absolute return strategy within our alternatives category.

Asset Class Returns (As of 4/11/14)

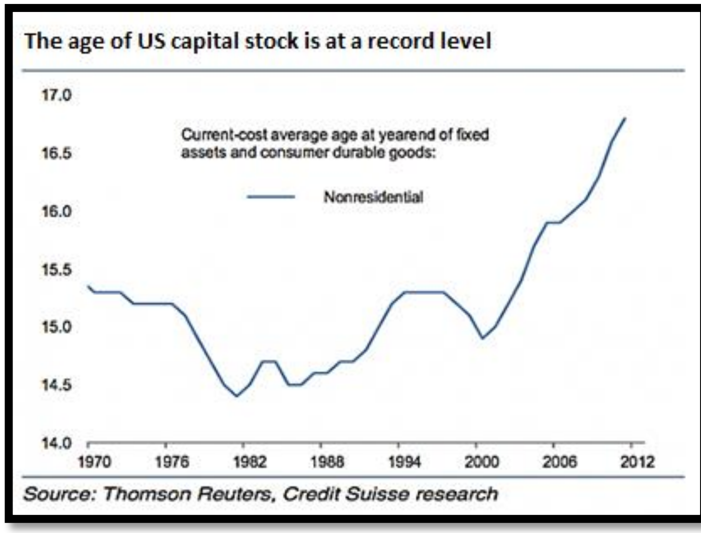
Asset Class	Ticker	2013	2014
REITs	ICF	-1.7%	11.4%
Gold	GLD	-28.3%	9.4%
Emerging Market Bonds	EMB	-7.8%	5.0%
Investment Grade Bonds	LQD	-2.0%	4.1%
Silver	SLV	-36.3%	2.6%
US Aggregate Bonds	BND	-2.1%	2.5%
High Yield Bonds	HYG	5.8%	2.5%
Commodities	DBC	-7.6%	2.4%
Emerging Market Equities	EEM	-3.7%	0.1%
US Large Caps	SPY	32.3%	-1.3%
US Small Caps	IWM	38.7%	-4.0%
Biotechs	XBI	48.4%	-4.1%
Consumer Discretionary	XLY	42.7%	-6.6%
Social Media	SOCL	64.0%	-15.6%

Source: Pension Partners

The Business Cycle

The natural progression from here may very well be continued credit expansion and a broader consumer expansion than we have seen so far in this slow recovery. We do believe pent up demand exists on a variety of fronts. Aging consumer durables (i.e. automobiles and washing machines), low corporate capital expenditures (plant and equipment) and low governmental infrastructure spending should result in a pick-up in the replacement cycle (see chart on next page); though many have been calling for this for some time. This, coupled with improved consumer balance sheets, could provide further U.S. equity strength as consumer spending picks up and translates into continued growth in corporate profitability.

Additionally, global earnings expectations for 2014 are quite optimistic. A global synchronization of revenue and earnings growth, which we have not witnessed in some time, could move markets higher and lead to improving international markets. Currently, international markets trade at lower valuations than domestic markets.



U.S. equity markets have dramatically outperformed their foreign counterparts in recent years. Europe has been slower to deal with issues arising from the credit crisis of 2007-2009. The European Central Bank (ECB) seemingly has the capacity and willingness to defend the growth prospects of European economies. In light of the incremental economic improvement we see in Europe, we have begun to increase foreign equity exposure at a disciplined and measured pace. A more challenging decision is whether emerging markets' performance will finally begin to resemble that of its developed market counterpart. Although emerging market equities appear attractive from an absolute and relative valuation perspective, U.S. monetary policy, the taper, is creating a headwind for these markets. Money has poured out of emerging market economies driving their markets lower. Compliments of the Absolute Return Letter, "The World Bank has made a valiant effort to estimate the effect of QE on capital flows and have found that over 60% of all capital inflows to EM countries can be either directly or indirectly attributed to QE."

Fixed Income: Caution, paint drying here

As monetary policy influences interest rates around the world, it continues to create challenges for investors' portfolios. Last year was one of only three years in the last thirty that the Barclays Aggregate Bond Index generated a negative return. Total returns and yields for traditional fixed income assets continue to be extremely low. The Fed's policy of keeping rates low has caused investors to reach for yield which has resulted in spreads tightening for both longer maturity and lower quality assets. A recent call with our high-yield manager confirmed our opinion to trim our high-yield bond exposure. Many fund managers in high-yield are expanding their credit universe to include even lower quality credits as acceptable purchases, which is a data point providing some indication this asset class may be nearing peak valuation. High yield rates are now in the low 5% range and a further narrowing of the spread between high quality bond yields and low quality bond yields seems unlikely. We have allocated more of our credit sensitive fixed income investments to floating rate bonds, i.e., bank loans. However, in the investor's pursuit for yield, even the spreads in this asset class are tight. We continue to monitor the fixed income portion of client portfolios closely due to the heightened downside risk in bonds if/when interest rates rise.

We recently added to our absolute return category in client accounts via the Gateway Fund. This fund is historically a low volatility way to invest in the equity market. We like many of the fund's characteristics including simplicity of strategy, comparable risk characteristics to a corporate bond fund and reasonable dividend yield. However, the position has become more compelling in the current market environment as Gateway has typically generated positive returns in a rising interest rate environment.

Conclusion

Although spring weather cannot possibly be far away, we are likely to continue to experience the effects of the long winter as companies begin to report first quarter earnings that were undoubtedly held back by the cold, snowy weather.

In fact the current consensus for first quarter earnings growth has been reduced measurably and first quarter GDP may be reported to have grown very modestly. We believe it is likely the second quarter will bounce back to an above-trend growth rate as pent up demand is satisfied and hibernation fatigue is shaken. The consumer is acting resilient despite major increases in payroll, ordinary income and investment related taxes. In order to see revenue and earnings growth, precursors to continued market advances, global private consumption needs to increase.

The advance in markets seen since the financial crisis lows leaves less opportunity for 'outsized gains' without outsized advances in earnings. The P/E multiples may continue to expand, but to use a mountaineering reference; we certainly are no longer at base camp.

We continue to remain positive on equities for investors with longer time horizons. We are mindful the market has avoided a sizeable correction for some time; however, as the early portion of our newsletter notes, certain segments of the market are experiencing their own correction. This may herald a healthier stock market and set the stage for further advances.

As always, we thank you for the trust and confidence you have placed in us. We welcome your thoughts and comments on our letter. Please visit us at www.horancapitaladvisors.com.

Respectfully,

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