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CLIENT BULLETIN

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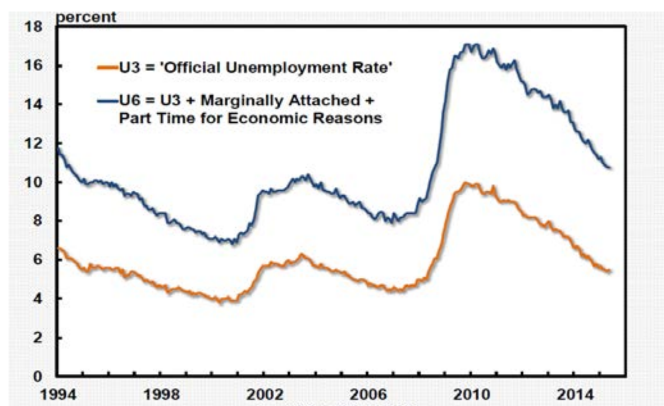
➢ *Unemployment Spin*

Unemployment data released last month revealed a reasonably strong economy that added 280,000 jobs in May resulting in a 5.5% unemployment rate. The financial media does not appreciate reports like this because they are essentially no news and slightly positive. In order to keep you focused on the short-term they need to create a narrative around this boring report. That narrative goes something like this: "the government isn't telling the truth about unemployment statistics. The real unemployment rate is over 10% when you include discouraged workers who have given up looking for a job and people who are working part-time when they want to work full-time." (Source: Bureau of Labor Statistics)

➢ *The Real News*

The idea that the government is hiding unemployment data is silly. Every month the Bureau of Labor Statistics reports **six** different unemployment rates. The publicly available chart shown to the right shows the "official" unemployment rate we all hear about (U3 rate) in orange and the unemployment rate that includes discouraged and part-time workers (U6) in blue. The relationship between these two rates has always existed and always will. The real news of the report is that it is the 63rd consecutive month of increases in private sector payrolls, the longest stretch in over 80 years of collecting this data. The plow horse economy continues which is good news for workers but bad news for the financial media.

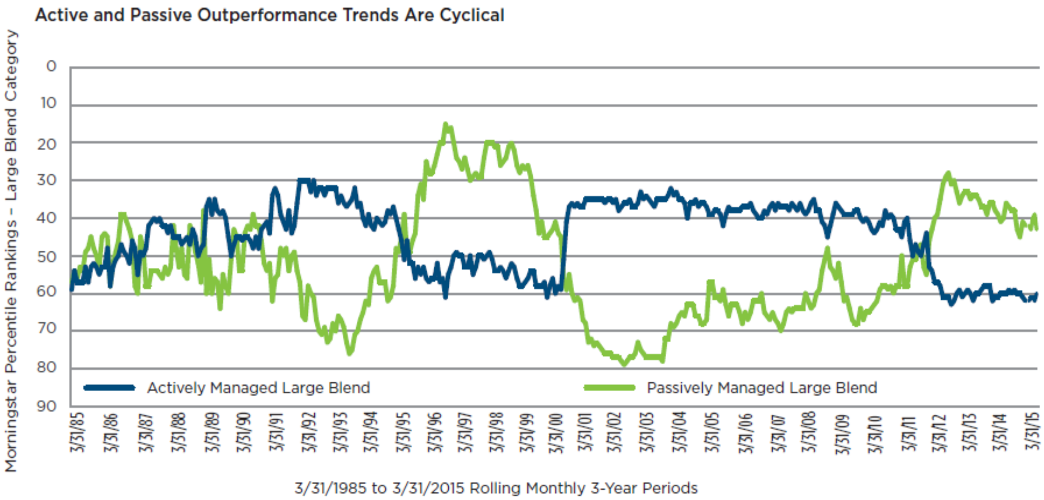


➢ *Active vs. Passive*

The debate over active vs. passive investing has heated up recently. Passive investing involves using an investment vehicle that mimics an index like the S & P 500, while active investing involves investment managers making qualitative and quantitative judgements as to which companies represent the best value at any given time. Passive investing is the new darling of the financial press as markets have recovered from the financial crisis over the past 6+ years. The performance of these two investing styles moves in cycles, however, so active investing shouldn't be written off just yet.

➢ *Active vs. Passive II*

The chart below shows the rolling 3-year performance percentile rankings of the average actively managed investments (blue line) vs. a passively managed S & P 500 index (green line).



Like two evenly matched racehorses, the performance of active & passive investment management philosophies have consistently traded the lead over the past 30 years. Recency bias, which is the tendency to believe that recently observed patterns will continue into the future, causes investor sentiment to move in cycles as well. The story the chart tells is clear, however. Just when it seems that active or passive has permanently pulled ahead, performance trends reverse and the futility inherent in declaring a winner in the active vs. passive race is revealed anew. (Source: Morningstar).

➢ *The Cloud Isn't Up in the Air*

All of your music and pictures aren't really up in the air if you store them in the cloud. The cloud is a cool name, but the reality of data storage and computing is more akin to a farm than the sky. Amazon, Google, Apple, and Facebook run massive facilities around the world filled with servers that handle billions of transactions. When you run a Google search, you may hit 20,000 of these servers in 1/3 of a second. Use of these servers is growing wildly – today approximately 2 billion people can access the internet through their house or smart phone. In 5-6 years, access will grow to 4 billion people who will be reached through the internet. Cloud computing has become a hugely disruptive force and investors need to keep on top of all of the change that is taking place to identify companies that are growing sales and improving profits. (Source: Capital Group)

➢ *Web Services*

Amazon is a prime example of a company that saw the possibilities and capitalized on it. Amazon has purchased millions of servers at wholesale prices and set them up in their own data centers which they use only use 13% of the time. They rent out the rest of their capacity to other companies through Amazon Web Services (AWS). This has created the biggest trend in corporate IT – instead of buying their own servers, companies just rent what they need from AWS at roughly $.08/hour. For example, Netflix runs entirely on AWS and Intuit is moving all of their corporate IT to AWS. Data is more secure on AWS than at a company's individual IT department as well -AWS has hundreds of people just working on the protection of the data. Other companies don't have the power to do that. (Source: Capital Group)