BEDELL FRAZIER
INVESTMENT COUNSELLING, LLC

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NEWSLETTER

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Bull Turns Five

by Mike Frazier

We see more room for this Bull Market to run. The Bull Market trotted into its 5th year this spring. The S&P 500 has claimed a staggering 190% gain during this Bull Run, since those 2009 lows. It now stands near all-time highs, and 25% above the previous 2007 highs. Rallies usually die when enthusiasm is sky high. Enthusiasm is not that high. Many investors still do not trust this market - they haven't embraced it all along. That lack of faith is one of the most compelling aspects of the bullish case for stocks. History has proven that great market meltdowns take a generation to rebuild.

We stand by our 2014 investment themes: US Tech, US Biotech and US Energy. In Technology, smart devices are getting even smarter. In Biotech, novel science and cutting edge medicine are as fertile as ever. Energy production is at multi-decade highs, and energy independence is coming. It's all happening on American soil.

American Made

US Manufacturing is back big-time, driven by Cars, Housing and Consumer Electronics. The United States has been in "insource" mode, preferring to make things at home rather than "outsource" overseas. Robust supplies of cheap American energy are providing lower cost production to overseas options. Large institutions are building factories at home again; great for jobs, great for the economy.

Not only are smart devices smarter, they're talking, and in some instances driving. The digital age has brought incredible advancements in our daily lives, which has impacted how we communicate, how we travel and how we transact. We don't see this changing, and will continue to invest here.

Science and Medicine

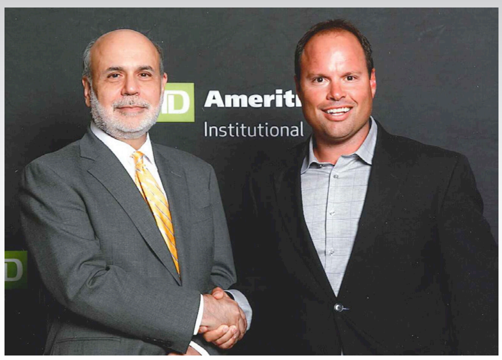
We are thrilled to see the developments in medicine. Ongoing patient trials are showing significant extensions of life, while improving the quality of life. Advancements in science and medicine are as compelling as any investment theme out there. Treatment for cancers, cystic fibrosis, and vision impairments are big focuses of ours. We don't see this changing anytime soon; in fact, we see more investment opportunities ahead in biotech.

The US has led the charge the past 5 years. You might be wondering if we're looking overseas again. Much of the world has not enjoyed the same success as the DOW and S&P. This could be changing.

Amongst the 40 largest countries, as measured by Gross Domestic Product (GDP), only 6 of them now see their stock markets at higher levels than they were in 2007. That's only 15% of the world's largest producing countries. Many international economies have not recovered as well as the United States. We see certain international market underperformance coming to an end and believe they are poised to play catch up.

Cycles Go 'Round and 'Round

Life can be very cyclical. Politics are cyclical. Fashion trends are cyclical. Economic trends are cyclical. Studying Market Cycles, both domestically and abroad, particularly across different asset classes, enhances our ability to anticipate how these various investment classes might behave with a higher probability in the future. Right now, in the middle of 2014 we are seeing substantial changes in these global market cycles.



Mike Frazier and former Federal Reserve Chairman Ben Bernanke in June. If you are interested in Mike's notes from Ben's talk please email Mike (mike@bedellinvest.com)

Enter inflation. Here in the US we've been facing deflation since the credit crisis and inflation has been very benign. This is especially true when comparing current levels to historical levels. Inflation generally comes with rising commodity prices and interest rates. We really notice it in food and energy prices. It's not perfect correlation, but they all tend to move in tandem over time.

Many Emerging Markets rely heavily on exports to provide their domestic economic growth. Mature markets, like the US, are primarily service economies that import much of what emerging markets are selling. Lower commodity prices the past few years has been a major positive impact for the US, Europe and Japan. But it's come at the expense of the commodity export-oriented emerging market nations. We see change in the air.

Emerging Market nations could be ripe for economic growth. And the US could really ramp up exports again, with substantial energy supplies and more competitive manufacturing. Commodity cycles, emerging market cycles and interest rate cycles are showing meaningful signs of bottoming together. With the DOW near all-time highs, we see the potential for a meaningful trend change.

This provides opportunities for investors in international markets, commodities and in industries that historically perform well in a rising interest rate environment.

We love US Tech, Biotech and Energy. But we can't help but look to where the current market cycles are pointing. We like bargains. We're seeing them overseas.

Field Research *by Jude Bedell*

I am pleased to report European consumers are changing their Internet habits at tres grande vitesse, TGV. They have adapted to Wi-Fi services at a fevered pitch and I dare say seem more intense in London and Paris and even aboard a British ocean liner than home in California. Truly shocking is the rate of adaptation to Wi-Fi over cellular. Heretofore, it was tough to get a phone call placed in Europe. It's as though the Europeans abandoned cellular phone services and morphed onto Wi-Fi communications overnight. Even at Wimbledon's hallowed Center Court, the nattily attired Brits were glued to their smartphones and other Wi-Fi devices! Only the tennis players were unconnected.

Consumer Corner *by Meredith Rosen*

Summer is upon us... this means BBQs, road trips, swimsuits and shopping! Summer is a time for discretionary spending. People are taking time off from work to visit family, or travel for pleasure and in doing so they spend. They purchase clothing before their trip, they buy plane tickets, refill their gas tanks, eat out at restaurants and pay to stay at hotels. Consumer spending is an important way of keeping dollars flowing through our economy.

While consumer spending is on the rise, retailers are still challenged to attract customers' attention in today's crowded marketplace. We believe online retail sales will continue to increase, however the online landscape is highly populated and web shoppers prove to be elusive with a short attention span. If a product is not easily found on a website, the shopper will quickly move on.

Last year approximately 19% of holiday purchases were made via smartphone or tablet. This percentage will increase as more of these devices are sold. Everyone with a smartphone or tablet is a potential customer. Retailers who relay a good customer experience and cross-sell products will be victorious and secure more customer dollars. Why? There is a misconception that all online shoppers are in search of the lowest price. Not so. Many are in search of a quick, convenient and safe transaction. Online retailers who can meet such demands will win loyal customers who return time and time again.

Income Update *by Mike Harris*

2014 has been good to the Bond Market. Interest rates fell and Bond prices rose into the mid-point of the year. It has been quite the opposite from last year which brought negative total returns for the bond market for the first time in a decade - not so for our portfolios. It's been a contrarian call to be bullish on bonds. The masses were calling for even higher rates, expecting the 10-Year Treasury to yield 3.5%. We went against the herd. June closed with the 10-Year yielding 2.5%. The exact opposite occurred from what the herd anticipated!

We exited our bond hedges last Fall (which worked beautifully in '13) and captured this tremendous bond move so far in '14. We started buying Corporates and Muni's for the first time in nearly 2 years. Diversifying our exposure from plain vanilla Corporate, Municipal and Treasury bonds and moving into areas such as MLP's, select REIT's and Preferred Stocks, has magnified the strength of our income portfolios. After this strong move, interest rates are nearing the levels we were targeting.

We plan to protect these profits by taking on hedges as we did last year. Using a hedge allows for collection of the strong cash-flow that bonds are paying in the form of interest payments, while protecting from some price decline associated with rising rates. We will continue to actively seek the best income investments as the Fed transitions its monetary policy.

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