3rd Quarter 2014

Business confidence will continue to improve and an increase in capital spending may be more pronounced going forward. The U.S. energy outlook long-term is becoming increasingly optimistic as corporations are positioning themselves to take advantage of the low cost of domestic energy production vis-à-vis the rest of the world. This too bodes well for a sustained improvement in the U.S. economy.

Capital spending is one of the more cyclical components of GDP. It typically recovers rapidly in the early stages of economic recovery and maintains momentum in the later stages of the recovery. Following the Great Recession, capital spending posted significant gains in 2010-11 but was at a more subdued pace the last two years. In the most recent quarter, there was a noticeable pickup in capital spending and expectations point to further gains. In the second-quarter real GDP growth (4.6%) was stronger than originally thought by the consensus forecast but in line with our outlook, led by increased investment spending by businesses. Favorable factors included a continued low interest rate environment, the healthy cash positions of corporations and surveys indicating that businesses are optimistic about capital expenditures in the near term. Capital spending is one of the main drivers of productivity and there is room for capital spending to advance and replenish capital stock. Capital expenditures could be a surprise factor that gives an extra lift to GDP in the future.

This optimistic view of capital expenditures is reinforced by changing growth and trade patterns. Economic growth could be stimulated by a more competitive manufacturing sector and the ability of U.S. firms to recapture market share. We are starting to see fundamental improvement and positive change in these indicators. In past periods of strong gains in private sector real GDP growth, the U.S. imported large amounts of foreign goods. However this pattern is changing. From the second-quarter of 2011 through the second-quarter of 2014, private sector real GDP was up 3.1% (annualized) while real non-petroleum imports rose 3.4%. As previously outlined, the low interest rate environment and favorable cash flow positions also bode well for capital spending in the near term.

One of the factors also aiding the rebound in manufacturing is the boom in energy with the production of low cost natural gas through hydraulic fracturing. Natural gas serves as a low cost alternative energy source for manufacturing plants. New energy production is a game changer in that it creates an opportunity for several regions of the country to renew themselves. The Midwest industrial “rust belt” is one example. In Ohio the unemployment rate of 5.7% is below the national average of 6.1%. This rate was 10.6% four years ago. In Youngstown, Ohio the unemployment rate of 6.7% is in contrast to 13.3% in early 2010. A 2013 McKinsey study estimated that production of shale gas could help create up to 1.7 million jobs nationally. Many of these jobs are expected to end up in places like Youngstown because they are close to newly developed fields like the nearby Utica shale formation.

The yield curve flattened modestly during the quarter as the two-year maturity rose in yield while the 10-year declined slightly. The yield curve for the quarter was as follows:

	June 30	Sept 30	Change
3-monthTreasury Bills	0.02	0.02	0.00
6-month Treasury Bills	0.06	0.03	-0.03
2-year Treasury Note	0.46	0.57	0.11
5-year Treasury Note	1.63	1.76	0.13
10-year Treasury Note	2.53	2.49	-0.04
30-year Treasury Bond	3.36	3.20	-0.16
10-year vs. 2-year (bps)	207	192	-15

Corporate Sector

After a strong first-half of the year, corporate spreads widened during September. Having reached a tight of 0.95% over comparable U.S. Treasuries in July, the average corporate bond market spread over the comparable U.S. Treasury yield rose to 1.07% by of the end of the quarter. The increase in spreads offset the higher income of the sector. Three-year and shorter bonds underperformed by just 1 basis point while intermediate securities had a negative 0.21% excess return. However, the sector remains a standout performer for the full year with 0.77% excess returns for shorter dated bonds and 1.18% for intermediate bonds. Our portfolios were overweight the corporate sector throughout the period.

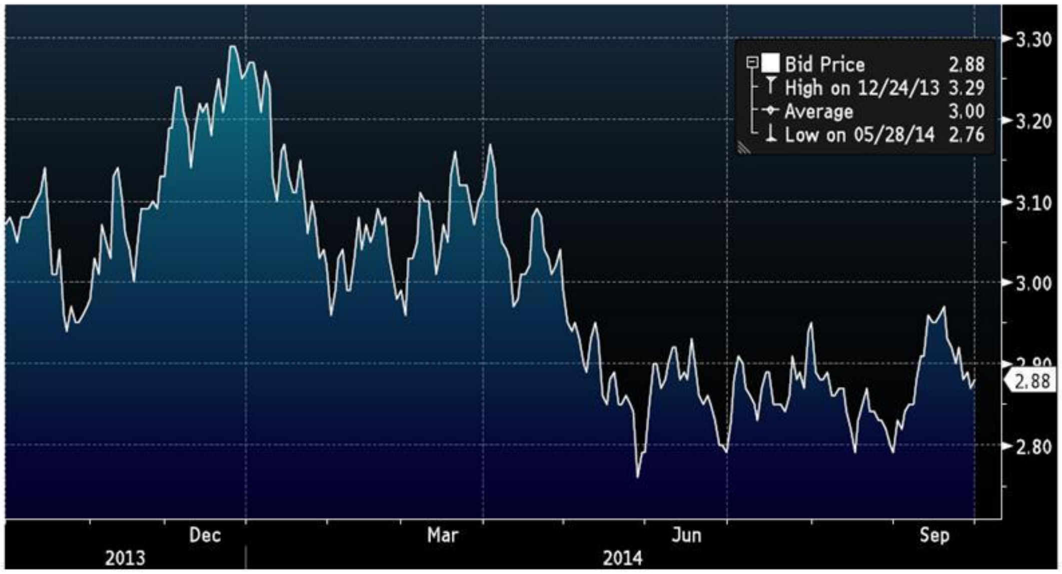
The sector was adversely impacted by worries over global growth, a perception of tight spreads available in the corporate market, and weakness in the high yield and stock markets. Though these concerns may persist in the short run, the financial fundamentals of corporate issuers remain reasonable and should limit any significant increase in credit spreads. The sector, therefore, is expected to post positive excess returns in line with its higher income versus comparable Treasury securities over the remainder of the year. The perception that credit spreads are too "tight" is not supported by historical experience, as investment grade spreads have traded inside of current spreads for extended periods. For instance, from 1989 through 1994, the market traded in double digits 86% of the time while from 1995 through 2007, it occurred 46% of the time. The actual tights in spreads for the last two cycles were 0.56% in February 1997, and 0.82% in March 2005. Current net leverage of 1.84 times, versus, 1.59x in 2005 and 1.66x in 1997, may support a slightly higher peak spread level but does not preclude spreads from modestly tightening from current levels. Other indicators remain supportive of valuations. For instance, 76% of reporting companies in the second-quarter had earnings that exceeded market expectations. Our BAML Lighthouse quantitative screen continues to estimate that the corporate bond universe offers value as the calculated excess spread over the calculated credit risk is 0.22% versus 0.24% at the prior quarter end. Gross leverage is elevated from past economic cycles, but the risk is partially offset by the low average coupon of the debt, high corporate cash positions and constrained capital expenditures.

During the third-quarter several securities were added to our portfolios. JPMorgan Chase & Co., the second largest U.S. money center bank by market capitalization, was purchased after it reported earnings that were significantly better than market expectations. Based on our quantitative model, JPM is trading 0.29% cheap to its credit risk, wider than the overall investment grade market. Financial fundamentals including a 7.26% return on equity, a modest level of Non-Performing Assets to Capital plus Reserves at 5.2% and an estimated Basel III Tier 1 Equity Ratio of 9.8% last quarter are supportive of our investments, especially in light of their ongoing resolution of regulatory issues. Toronto Dominion Bank, the second largest Canadian bank by market capitalization, was also purchased during the period. The bank reported significantly better than expected earnings during the second-quarter. Their financial fundamentals are stable with a return on equity of over 15%, modest charge-offs of just 0.34% of outstanding loans and a 9.30% estimated Basel III Tier 1 Equity ratio. A final illustration during the quarter was Express Scripts, a full service pharmacy benefit management company. The company's earnings exceeded market expectations for the second-quarter. Financial fundamentals have been relatively stable and current EBITDA/Interest Expense is 11.2 times, while leverage, as measured by Net Debt to EBITDA, is 2.1 times for the trailing 12 months. Our quantitative screen estimates that their debt securities are trading approximately 0.24% cheap to their credit risk.

Mortgage-Backed Sector

Mortgage-Backed Securities (MBS) modestly underperformed comparable U.S. Treasuries during the third-quarter. MBS yields widened slightly during the period, ending the quarter up nine basis points from June 30.

LUMSYW Index (Barclays US MBS Index Yield To Worst)



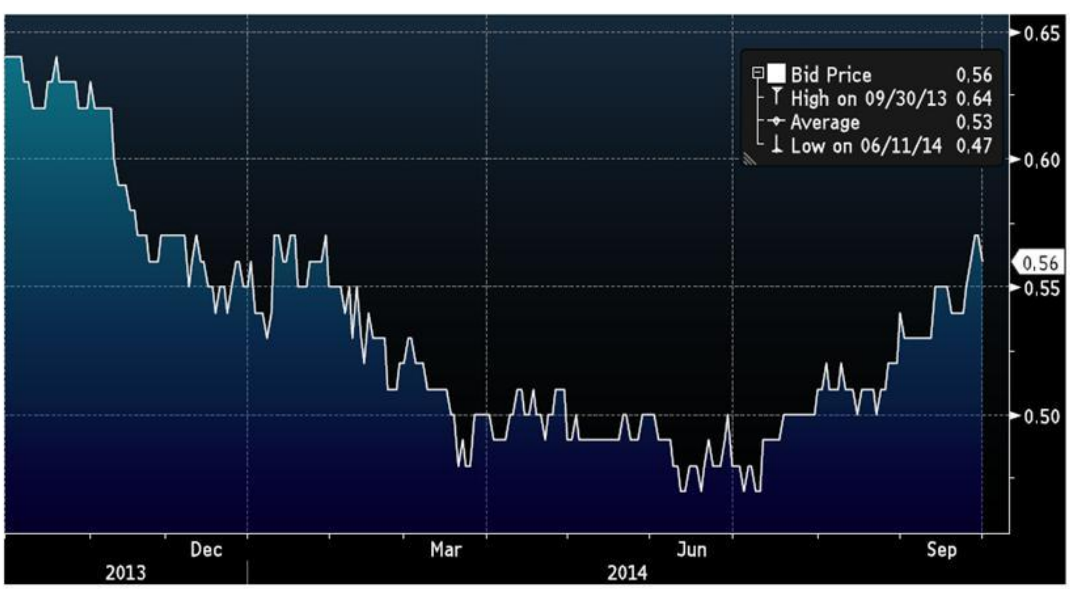
We maintained only a modest exposure to MBS during the quarter, as the yield associated with this asset class has languished. Currently, the MBS allocation within our portfolios represents only a minimal exposure to this asset class. Our portfolios include both FNMA & FHLMC securities of 15- & 30- year maturities.

As the U.S. economy continues to improve, correspondingly higher interest rates will put pressure on MBS prices. Accordingly, we maintain a cautious stance on this asset class. We continue to monitor market trends and may adjust our position if conditions warrant such a change.

Asset-Backed Sector

Asset-Backed Securities (ABS) modestly outperformed comparable U.S. Treasuries during the third quarter. Fixed rate ABS have widened modestly over the past three-months, with option-adjusted spreads (OAS) ending the quarter at approximately 56 basis points.

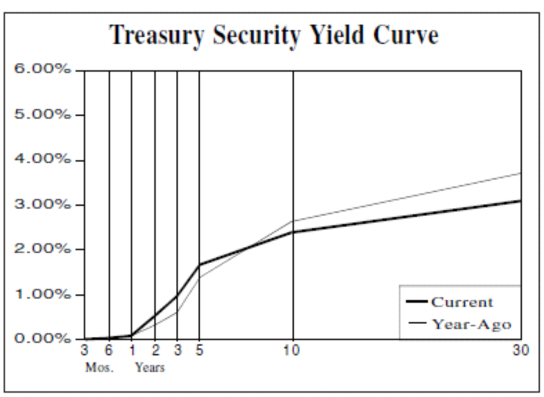
LUABOAS Index (Barclays US Agg ABS Avg OAS)



The ABS included in our portfolios is high quality (i.e. AAA rated), stable, liquid securities. They include credit card receivables, auto loan/lease receivables and dealer floor plans, as well as equipment leasing transactions. We use these securities as a cash substitute, with relatively attractive yields versus U.S. Treasury and Agency notes.

Several new ABS positions were added during the third-quarter. Two examples of issues which have been added to our portfolios are: 1) Ally Master Owner Trust 2014-4 A2 (Ally Financial / Wells Fargo servicers / Wells Fargo Bank trustee) and 2) Volkswagen Credit Auto Master Trust 2014-1A A1 (VW Credit, Inc. servicer / Citibank NA trustee). These structures typify the types of ABS issues we prefer, with AAA ratings, high quality collateral and substantial credit enhancement.

	Recent (10/01/14)	*3 Months Ago (7/01/14)*	*Year Ago (10/02/13)*		*Recent (10/01/14)*	*3 Months Ago (7/01/14)*	*Year Ago (10/02/13)*
TAXABLE							
Market Rates				**Mortgage-Backed Securities**			
Discount Rate	0.75	0.75	0.75	GNMA 5.5%	1.56	1.49	2.45
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	FHLMC 5.5% (Gold)	1.87	1.70	2.66
Prime Rate	3.25	3.25	3.25	FHLMC 5.5%	1.65	1.46	2.39
30-day CP (A1/P1)	0.10	0.11	0.13	FHLMC ARM	1.83	1.83	2.11
3-month Libor	0.24	0.23	0.24	**Corporate Bonds**			
Bank CD's				Financial (10-year) A	3.52	3.54	4.07
6-month	0.15	0.05	0.07	Industrial (25/30-year) A	4.19	4.38	4.70
1-year	0.26	0.09	0.09	Utility (25/30-year) A	4.09	4.26	4.61
5-year	0.83	0.51	0.58	Utility (25/30-year) Baa/BBB	4.53	4.57	5.26
U.S. Treasury Securities				**Foreign Bonds**			
3-month	0.01	0.02	0.01	Canada	2.07	2.28	2.55
6-month	0.04	0.06	0.04	Germany	0.90	1.26	1.81
1-year	0.09	0.10	0.09	Japan	0.53	0.56	0.64
5-year	1.67	1.69	1.39	United Kingdom	2.36	2.71	2.71
10-year	2.39	2.60	2.63	**Preferred Stocks**			
10-year (inflation-protected)	0.46	0.32	0.41	Utility A	5.98	5.93	6.05
30-year	3.09	3.44	3.71	Financial A	6.51	6.40	6.51
30-year Zero	3.23	3.61	3.99	Financial Adjustable A	5.48	5.48	5.48



Source: Value Line, Inc.

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	09/17/14	**09/03/14**	**Change**	**12 Wks.**	**26 Wks.**	**52 Wks.**
Excess Reserves	2717430	2685576	31854	2651508	2609055	2501387
Borrowed Reserves	297	296	1	249	188	184
Net Free/Borrowed Reserves	2717133	2685280	31853	2651258	2608868	2501203

MONEY SUPPLY

(One-Week Period; in Billions, Not Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	09/15/14	**09/08/14**	**Change**	**3 Mos.**	**6 Mos.**	**12 Mos.**
M1 (Currency+demand deposits)	2847.1	2823.6	23.5	4.1%	6.7%	10.6%
M2 (M1+savings+small time deposits)	11505.2	11497.8	7.4	6.2%	6.0%	6.8%

Source: Unites States Federal Reserve Bank

Tracking the Economy