CHRYSALIS
INVESTMENT MANAGEMENT LLC

8235 Forsyth Blvd., Suite 200
Clayton, MO 63105
(o) 314.726.5500
(f) 314.881.1868
www.chrysalisim.com

March 31, 2014 Quarterly Report

1st Quarter Correction

While we ended last year discussing cash as a valid short term allocation of assets, we had mentioned that the outlook for 2014 was cloudy. Given the uncertainties with future Fed Policy, unemployment numbers, and markets making all time highs, we had expected some uncertainties. As the end of the 1st quarter of 2014 has come to pass, the markets truly were choppy. On a price index basis, after peaking at a close of 1848.38 on January 15, 2014, the S&P 500 index declined to close at 1741.89 on February 3, 2014. This decline measured in at a negative 5.76% over a dismal 14 day trading period.

The S&P 500 price index rebounded fairly quickly from the low close on February 3, 2014. The index needed only 17 trading days to reach a new high on February 27, 2014 when the closing price was 1854.29.

We had mentioned taking advantage of a better pricing opportunity at the end of 2013 and we were able to do so during this whipsaw trading environment. For most of our clients we added at least 4 more equity positions during the end of January/beginning of February, allowing us to handily exceed our benchmarks for the quarter.

Our decision to enter into new positions was a combination of varying economic factors but also a contrarian move based on investor fund flows. During the later part of January and into the early part of February, investors were redeeming a larger than average amount of equity mutual fund investments. These fund flows created a buying opportunity as valuations became cheaper.

Index Returns

The choppy and volatile conditions in the market during the first quarter are supported by the various returns shown below. While on a total return basis, the S&P 500 and Barclay's Aggregate Bond Index were up for quarter, the broader Russell 2000 index declined.

Index	Q1 2014	Q4 2013	Q3 2013	Q2 2013	5 Year Annualized
S&P 500	1.81%	10.51%	5.24%	2.91%	19.75%
Russell 2000	-0.56%	8.72%	10.21%	3.08%	22.02%
Barclay's Agg	1.97%	-0.14%	0.57%	-2.32%	4.91%

Data provided by MorningStar Office

If reversion to the mean is to hold true, we may see overall equity growth muted during the next 12-18 months as we have had quite a large increase in equity valuations during this 5 year bull market.

Looking at the Quarter Ahead

As earnings for the 2nd quarter get released we will see if the Q1 data, including employment, spending, and building permits were a result of bad weather or a decline in consumer confidence.   We still face some headwinds with the timing of a Fed rate hike along with Fed tapering. Additionally, China's slowdown and Russian geopolitical concerns remain a threat to short term market investments.

Finally, we are continuing to observe a developing El Nino pattern in the Pacific Ocean. The last major El Nino event in 1997-98 was said to cause over $35Billion in damages. These warming events of the Pacific Ocean can wreak havoc with the weather in the United States and it bears watching. For those of us in the Midwest during the Flood of 1993, we do not underestimate the effects of these El Nino patterns.

Current US Economic Indicators:

- Consumer Confidence up 4.0 pts
- Employment Trends Index up 0.43%
- Help Wanted OnLine down 292,100
- Leading Economic Index up 0.5%
- Measure of CEO Confidence down 6.0 pts

Conclusion

Once again, we cannot reiterate enough how we have benefited greatly from the Fed's accommodative policy as we have participated in the rise of equities and bonds over the last five years. What is concerning to us is the recent speech given by the new Fed chief, Janet Yellen, in her first public appearance since assuming the head position.

In an unusual move, she cited by name three workers who lost their jobs or absorbed sharp pay cuts when the recession hit. This type of political candidate speak is troublesome because the Fed is supposed to act independently of politics. The policies enacted should not be based on political motives, but based on economic policies only.

If the Fed is moving to a more political decision making body, it will be even more difficult to enact change when necessary. Paul Volker and the Fed did not raise rates in the early 80's because it was a popular decision. Rates were increased because it was the right decision.

The first quarter volatility may be the theme for 2014. We are prepared to invest accordingly.

Should you have any questions please feel free to call me directly at 314-726-550 or email at bgrunzinger@chrysalisim.com.

Sincerely,

Robert J. Grunzinger, CFA CPA (inactive)
President Chrysalis Investment Management, LLC