



MainStay Marketfield Fund

Fund Overview

OBJECTIVE

The investment objective of the Fund is capital appreciation. We endeavor to accomplish this by seeking low-volatility absolute returns in excess of broad equity indexes.

STRATEGY & PROCESS

The Fund attempts to provide returns on capital substantially in excess of the risk-free rate rather than matching any particular index or external benchmark. The Fund has a broad investment charter that allows it to utilize equity securities, fixed-income instruments, commodities, futures, and options. Additionally, with respect to 50% of the Fund's net assets, the Fund may engage in short sales of index-related and other equity securities to reduce its equity exposure or to profit from an anticipated decline in the price of the security sold short. The use of short selling could result in increased volatility of returns.

Fund Facts

FUND STATISTICS

CUSIP:.....Class A: 56064B878
 Class I: 56064B852
 Class R2: 56064B845
 Inception Date 7/31/07
 Benchmark S&P 500 Index
 Net Assets \$20,841 M
 Number of Holdings 131

TOP TEN LONG HOLDINGS (EXCLUDING CASH) (AS OF 4/30/14)

Bank of Ireland2.1%
 Alcoa, Inc.....1.6%
 Facebook, Inc.1.4%
 Bank of Ireland Trust - Preferred Security1.4%
 Fiat Industrial SpA (Italy).....1.4%
 BHP Billiton, Ltd. ADR1.3%
 Schlumberger Ltd.....1.3%
 iShares MSCI Mexico ETF.....1.3%
 UniCredit SpA (Italy)1.3%
 Continental AG (Germany).....1.3%
 TOTAL: 14.4%

PORTFOLIO ALLOCATION (AS OF 4/30/14)

Equity Long 85%
 Equity Short 29%
 Futures Short* 1.6%

Option delta not reflected.

*Notional Value

★★★★ OVERALL MORNINGSTAR RATING™ (CLASS I) AMONG 145 LONG-SHORT EQUITY FUNDS AS OF 4/30/14

Ratings are based on risk-adjusted return. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its five-year Morningstar Rating metrics.

Class I shares received 4 stars among 145 Long/Short Equity Funds for the three-year period and 4 stars among 73 Long/Short Equity Funds for the five-year period.

Fund Performance

Monthly Average Annual Total Returns as of 4/30/14

	Tickers	YTD	One Year	Three Year	Five Year	Inception
Class I (07/31/2007)	MFLDX	-3.83%	6.79%	8.32%	14.06%	9.04%
Class A (Max. 5.5% load) (10/08/2012)	MFADX	-9.18%	0.63%	6.05%	12.50%	7.87%
Class A (NAV) (10/08/2012)	MFADX	-3.90%	6.49%	8.07%	13.78%	8.77%
Class R2 (10/08/2012)	MFRDX	-3.96%	6.38%	7.94%	13.65%	8.65%
S&P 500 Index	N/A	2.56%	20.44%	13.83%	19.14%	6.20%**

**Inception date used was for Class I (07/31/07).

Quarterly Average Annual Total Returns as of 3/31/14

	Tickers	YTD	One Year	Three Year	Five Year	Inception
Class I (07/31/2007)	MFLDX	-1.84%	9.14%	10.09%	16.25%	9.49%
Class A (Max. 5.5% load) (10/08/2012)	MFADX	-7.24%	2.91%	7.80%	14.68%	8.31%
Class A (NAV) (10/08/2012)	MFADX	-1.84%	8.90%	9.85%	15.98%	9.23%
Class R2 (10/08/2012)	MFRDX	-1.90%	8.79%	9.71%	15.85%	9.11%
S&P 500 Index	N/A	1.81%	21.86%	14.66%	21.16%	6.16%**

**Inception date used was for Class I (07/31/07).

Total Annual Fund Operating Expenses: Class I: 2.66%, Class A: 2.93%, and Class R2: 3.05%. Effective October 5, 2012, New York Life Investment Management LLC ("New York Life Investments") has contractually agreed to waive fees and/or reimburse expenses, so that Total Annual Fund Operating Expenses (excluding taxes, interest, litigation, extraordinary expenses, brokerage and other transaction expenses relating to the purchase or sale of portfolio investments, and acquired (underlying) fund fees and expenses) for Class I shares do not exceed 1.56% of its average daily net assets. This agreement will be in effect for a two-year period unless extended by New York Life Investments and approved by the Board of Trustees.

Average annual total returns include the change in share price and reinvestment of capital gains and distributions. Effective 10/8/12, Marketfield Fund was renamed MainStay Marketfield Fund. At that time, the Fund's existing no-load shares were redesignated Class I shares. Performance for Class A and R2 shares, first offered 10/8/12, includes the historical performance of Class I shares from inception through 10/8/12, adjusted to reflect the applicable sales charge and fees and expenses for such shares. Class I shares are generally available only to corporate and institutional investors.

Performance reflects the reinvestment of dividends and other earnings and is net of advisory fees. Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data to the most recent month-end may be obtained by calling 800-MAINSTAY (624-6782).

The S&P 500 Index (SPX) is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The securities holdings and volatility of the Fund differ significantly from the stocks that make up the SPX.

Equity allocations may include fixed-income exposure.

Top Five Sectors—Net

Materials	18.7%
Financials	14.8%
Industrials	13.4%
Consumer Discretionary	9.6%
Energy	5.8%

Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security. Current and future portfolio holdings are subject to risk. There can be no guarantee that investment objectives will be met.



MainStay Marketfield Fund

Fund Overview

OBJECTIVE

The investment objective of the Fund is capital appreciation. We endeavor to accomplish this by seeking low-volatility absolute returns in excess of broad equity indexes.

STRATEGY & PROCESS

The Fund attempts to provide returns on capital substantially in excess of the risk-free rate rather than matching any particular index or external benchmark. The Fund has a broad investment charter that allows it to utilize equity securities, fixed-income instruments, commodities, futures, and options. Additionally, with respect to 50% of the Fund's net assets, the Fund may engage in short sales of index-related and other equity securities to reduce its equity exposure or to profit from an anticipated decline in the price of the security sold short. The use of short selling could result in increased volatility of returns.

Fund Facts

FUND STATISTICS

CUSIP:.....Class A: 56064B878
 Class I: 56064B852
 Class R2: 56064B845
 Inception Date 7/31/07
 Benchmark S&P 500 Index
 Net Assets \$20,117 M
 Number of Holdings 129

TOP TEN LONG HOLDINGS (EXCLUDING CASH) (AS OF 5/31/14)

Bank of Ireland2.0%
 Alcoa, Inc.....1.7%
 Facebook, Inc.1.6%
 Bank of Ireland Trust - Preferred Security 1.4%
 Schlumberger Ltd.....1.4%
 iShares MSCI Mexico ETF.....1.4%
 BHP Billiton, Ltd. ADR1.3%
 Nikkei 225 Index Future June 2014* 1.3%
 Market Vectors Agribusiness ETF 1.3%
 Baker Hughes, Inc.1.3%
 TOTAL: 14.7%

PORTFOLIO ALLOCATION (AS OF 5/31/14)

Equity Long 84%
 Futures Long* 1%
 Equity Short 33%
 Futures Short* 16%

Option delta not reflected.

*Notional Value

★★★★ OVERALL MORNINGSTAR RATING™ (CLASS I) AMONG 145 LONG-SHORT EQUITY FUNDS AS OF 5/31/14

Ratings are based on risk-adjusted return. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its five-year Morningstar Rating metrics.

Class I shares received 4 stars among 145 Long/Short Equity Funds for the three-year period and 4 stars among 75 Long/Short Equity Funds for the five-year period.

Fund Performance

Monthly Average Annual Total Returns as of 5/31/14

	Tickers	YTD	One Year	Three Year	Five Year	Inception
Class I (07/31/2007)	MFLDX	-4.91%	3.54%	8.35%	11.73%	8.74%
Class A (Max. 5.5% load) (10/08/2012)	MFADX	-10.21%	-2.43%	6.09%	10.22%	7.59%
Class A (NAV) (10/08/2012)	MFADX	-4.98%	3.25%	8.10%	11.47%	8.48%
Class R2 (10/08/2012)	MFRDX	-5.04%	3.13%	7.97%	11.35%	8.36%
S&P 500 Index	N/A	4.97%	20.45%	15.15%	18.40%	6.48%**

**Inception date used was for Class I (07/31/07).

Quarterly Average Annual Total Returns as of 3/31/14

	Tickers	YTD	One Year	Three Year	Five Year	Inception
Class I (07/31/2007)	MFLDX	-1.84%	9.14%	10.09%	16.25%	9.49%
Class A (Max. 5.5% load) (10/08/2012)	MFADX	-7.24%	2.91%	7.80%	14.68%	8.31%
Class A (NAV) (10/08/2012)	MFADX	-1.84%	8.90%	9.85%	15.98%	9.23%
Class R2 (10/08/2012)	MFRDX	-1.90%	8.79%	9.71%	15.85%	9.11%
S&P 500 Index	N/A	1.81%	21.86%	14.66%	21.16%	6.16%**

**Inception date used was for Class I (07/31/07).

Total Annual Fund Operating Expenses: Class I: 2.66%, Class A: 2.93%, and Class R2: 3.05%. Effective October 5, 2012, New York Life Investment Management LLC ("New York Life Investments") has contractually agreed to waive fees and/or reimburse expenses, so that Total Annual Fund Operating Expenses (excluding taxes, interest, litigation, extraordinary expenses, brokerage and other transaction expenses relating to the purchase or sale of portfolio investments, and acquired (underlying) fund fees and expenses) for Class I shares do not exceed 1.56% of its average daily net assets. This agreement will be in effect for a two-year period unless extended by New York Life Investments and approved by the Board of Trustees.

Average annual total returns include the change in share price and reinvestment of capital gains and distributions. Effective 10/8/12, Marketfield Fund was renamed MainStay Marketfield Fund. At that time, the Fund's existing no-load shares were redesignated Class I shares. Performance for Class A and R2 shares, first offered 10/8/12, includes the historical performance of Class I shares from inception through 10/8/12, adjusted to reflect the applicable sales charge and fees and expenses for such shares. Class I shares are generally available only to corporate and institutional investors.

Performance reflects the reinvestment of dividends and other earnings and is net of advisory fees. Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data to the most recent month-end may be obtained by calling 800-MAINSTAY (624-6782).

The S&P 500 Index (SPX) is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The securities holdings and volatility of the Fund differ significantly from the stocks that make up the SPX.

Equity allocations may include fixed-income exposure.

Top Five Sectors—Net

Materials	19.0%
Financials	16.5%
Consumer Discretionary	11.0%
Industrials	10.9%
Information Technology	6.5%

Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security. Current and future portfolio holdings are subject to risk. There can be no guarantee that investment objectives will be met.

Management Team



Michael C. Aronstein
President, Chief Investment Officer,
and Portfolio Manager

Michael C. Aronstein is Portfolio Manager of MainStay Marketfield Fund. In 2004, Mr. Aronstein joined Oscar Gruss & Son Incorporated, where he held the position of Chief Investment Strategist. Prior to joining Oscar Gruss, Mr. Aronstein was Chief Investment Strategist at Preservation Group, a provider of independent macroeconomic and strategic advice to professional investors. Mr. Aronstein began his investment career in 1979 at Merrill Lynch, serving positions as Senior Market Analyst, Senior Investment Strategist, and Manager of Global Investment Strategy. Mr. Aronstein spent six years as President of Comstock Partners, a diversified investment advisor, and left to found West Course Capital, a discretionary commodity management firm. Mr. Aronstein graduated from Yale College with a Bachelor of Arts in 1974. His views on macroeconomic and strategic issues are regularly sought by and disseminated through the financial print and visual media. Mr. Aronstein manages \$20,117 million in MainStay Marketfield Fund, \$445 million in MainStay VP Marketfield Portfolio & \$679 million in Marketfield Fund Dublin; total assets under management are \$21,241 million.



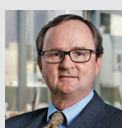
David C. Johnson, Jr.
Principal, Director of Research

Mr. Johnson joined Marketfield Asset Management LLC as Director of Research in April 2011. Mr. Johnson is a graduate of the University of North Carolina at Chapel Hill. He received his MBA in 1984 from Darden School of Business, University of Virginia. Prior to joining Marketfield, Mr. Johnson was an Investment Analyst, Portfolio Manager, and Head of Business Development at Wilkinson O'Grady & Co., Inc. He spent the first 10 years of his career in the fixed-income department of Salomon Brothers, where he managed one of its primary sales groups. Mr. Johnson was President of Preservation Group, where he worked closely with Mr. Aronstein.



Michael Shaoul
Chairman and CEO

Michael Shaoul also serves as Chief Executive Officer of Oscar Gruss & Son Incorporated, a position he has held since December 2001. He joined Oscar Gruss in 1996 as Chief Operating Officer. Between 1992 and 1996, Mr. Shaoul ran Park Square Associates, a Manhattan-based real estate investment and management company. He was awarded a Ph.D. in Accounting and Finance in 1992 from Manchester University (UK). Mr. Shaoul has written articles on behalf of *Barron's* and has been regularly quoted in *The Wall Street Journal* and Dow Jones Newswires regarding his opinions on the investment markets.



Myles D. Gillespie
Principal, Senior Trader

Myles D. Gillespie joined Marketfield Asset Management LLC in 2007. Myles is a graduate of The Hotchkiss School and holds a Bachelor of Arts degree from Franklin and Marshall College (Class of 1983). From 1983 to 1986, he worked as a Stock Index Futures Trader with Henderson Brothers and in 1986 became a NYSE Specialist at Quick & Reilly. He was appointed Executive Vice President of JCC Specialist Corp., the successor firm to Quick & Reilly, in 1989. In 1999, he became President of Fleet Specialist, Inc., the successor firm to JCC Specialist Corp., retiring from this position in 2004. During his time at the NYSE, Myles served as a NYSE floor Official (1993-1999) and NYSE floor Governor (2001-2004).



Andrew Lyss
Principal, Senior Trader

Mr. Lyss joined Marketfield Asset Management LLC in 2012. He was previously Executive Vice President at Oscar Gruss, which he re-joined in 1997. Mr. Lyss previously worked for Oscar Gruss from 1993 to 1995. Mr. Lyss specializes in special situations, including merger arbitrage, spinoffs, bankruptcy, and post-bankruptcy valuations. He has 23 years of securities industry experience. Prior to re-joining Oscar Gruss in 1997, Mr. Lyss was employed by Arnhold & S. Bleichroeder from 1995 to 1997 in institutional sales and by Prudential Securities from 1983 to 1989 in varied positions. Mr. Lyss received a BS/BA from the University of Denver in 1982.



Before You Invest

The Fund regularly makes short sales of securities, which involve the risk that losses may exceed the original amount invested. The Fund may also use options and futures contracts, which have the risks of unlimited losses of the underlying holdings due to unanticipated market movements and failure to correctly predict the direction of securities prices, interest rates, and currency exchange rates. However, a mutual fund investor's risk is limited to the amount invested in a fund. Investments in absolute return strategies are not intended to outperform stocks and bonds during strong market rallies. The Fund invests in smaller companies, which involve additional risks such as limited liquidity and greater volatility.

The Fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for investments in emerging markets. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. Investments in asset-backed and mortgage-backed securities involve additional risks such as credit risk, prepayment risk, possible illiquidity and default, and increased susceptibility to adverse economic developments. The Fund involves the risk that the macroeconomic trends identified by portfolio management will not come to fruition and their advantageous duration may not last as long as portfolio management forecasts. The Fund may invest in derivatives which often involve leverage, may increase the volatility of the Fund's NAV, and may result in a loss to the Fund.

© 2014 Morningstar, Inc. All Rights Reserved. The information contained herein (1) is proprietary to Morningstar, (2) may not be copied or distributed, and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ (based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance, including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.)

MainStay Marketfield Fund is subadvised by Marketfield Asset Management LLC and distributed by NYLIFE Distributors LLC, 169 Lackawanna Avenue, Parsippany, NJ 07054, a wholly owned subsidiary of New York Life Insurance Company. NYLIFE Distributors LLC is a Member FINRA/SIPC.

MainStay Investments® is a registered service mark and name under which New York Life Investment Management LLC does business. MainStay Investments, an indirect subsidiary of New York Life Insurance Company, New York, NY 10010, provides investment advisory products and services.

Neither New York Life Investment Management LLC, its representatives, nor its affiliates provide tax, legal, or accounting advice. Please consult your own advisors on these matters.

The risk-free rate represents the interest an investor would expect from an absolutely risk-free investment over a specified period of time.

Notional value is the total value of a leveraged position's assets.

Obtain the Prospectus

For more information about MainStay Funds®, call 800-MAINSTAY (624-6782) for a prospectus or summary prospectus. Investors are asked to consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus or summary prospectus contains this and other information about the investment company. Please read the prospectus or summary prospectus carefully before investing.

Commentary

For much of the past year we have been discussing the actual and potential consequences of an abnormally expansive monetary policy. It remains our belief that by maintaining crisis level monetary conditions long into an economic recovery the Federal Reserve is opening the economy up to an acceleration of activity that threatens to overwhelm the available pool of plant, machinery and labor.

Our portfolio has been positioned to benefit from greater nominal economic activity and a shift in market preference toward assets and sectors that exhibit more natural volatility and should maintain pricing power as available economic slack diminishes. The inflation in prices of return producing assets of all sorts is at a stage where the production process is beginning to spread from the purely financial e.g., bonds and yield focused equities, to the physical assets on which all of the financial return streams ultimately depend.

The process is set to absorb an increasing amount of labor and materials, and we expect to see price and wage responses accelerate over the coming quarters. As asset inflation begets the more traditional sort, markets will be forced to question the sustainability of abnormal monetary policy and risk averse, short volatility strategies that are based on more of the same.

In recent weeks we have seen a substantial body of incremental economic and corporate data points to support our argument, but we would be the first to admit that this is less true of actual market performance. Indeed for the past several months, this approach has been almost exactly backwards as capital flows have driven more money towards low-volatility, higher yielding and less economically sensitive portions of capital markets. These are all areas in which we have no assets deployed and in some cases (such as Utilities) have actually been short.

We understand why some would ask why we persist in our views but we have managed our way through a number of periods in which our beliefs were out of sync with investment flow and although it is never an easy process it generally ends better than following the crowd down a blind alleyway.

Regarding the latter we would note the clearest trend visible in 2014 has been the steady compression of yield spreads and volatility prices, both outcomes of the fact that as unlimited, inexpensive financing has supported rising prices of most investment media, their nominal current yields have declined to unprecedented levels. This is part of a secular quest for yield whereby the entire investment universe is heading toward real estate investment trust (REIT) or master limited partnership (MLP) status. The latest asset type to be swept up in the transformation is single-family housing. Large portfolios of houses have been bought by investment funds, then rented and securitized to provide a modest and apparently non-volatile stream of income to investors.

Single-family housing thus joins energy infrastructure, commercial real estate, roads, bridges, power generating facilities, medical facilities, ports and many other forms of tangible, commercial assets in transition to a quasi fixed-income instrument.

The trend toward yield manufacture and the suppression of realized volatility are two aspects of the overriding trend in contemporary finance. Both aspects of the process are seemingly unintended consequences of governmental action. The likelihood of a pleasant ending is slim.

The first part of the equation i.e., the search for yield and duration to replace what has been absorbed by central banks is common knowledge. The intentional suppression of apparent volatility is the second part of the equation. The various official incentives for this aspect of the process are less generally known but ultimately more important.

Every financial crisis during the past three decades has been marked by abrupt and widespread failure of presumed, low-volatility carry trades. These involved the application of lower cost leverage to higher yielding, historically safe assets in order to amplify the yields of the latter.

The process was at the core of turmoil in 1994, 1997-8, 2008 and 2011. We omit the bear market of 2000-2002, as it was only in the final phase that corporate carry trades involving leverage against technology infrastructure prompted anything near panic conditions.

The carriage of seemingly well behaved higher yielding assets on leverage is a form of volatility selling, wherein the investor is wagering on stability and against price displacement.

This strategy is implicit in all insurance contracts, where premiums are taken in against the possibility of some highly unusual, disruptive event.

The crucial difference between the insurance industry and the investment community is that the former knows that the unusual events will, sooner or later, come to pass. As a consequence, a good deal of premium income is set aside as reserves to be paid out when disaster strikes.

In the case of enhanced, engineered yields, i.e., carry trades, no such reserves are held. When unusual price displacement occurs, there is no cushion to prevent forced liquidations of the leveraged asset. This was the underlying story in the mortgage markets in 1994 and 2008, Emerging Market currencies in 1997, Long Term Capital Management in 1998, Enron and WorldCom in 2002 and nearly every investment bank during 2007 and 2008.



Commentary Cont.

In its current form, the carry process is abetted by central banks and other regulatory authorities who have designed stress tests for bank balance sheets that replicate the exact volatility conditions that afflicted each individual asset type during the panic of 2008. Risk is being arbitrarily defined utilizing a template that replicates conditions during the once-in-a-lifetime pandemic that followed the collapse of Lehman Brothers and the entire capital market financing infrastructure.

In many ways, institutional participants in capital markets are caught in a version of the film "Groundhog Day", or for those of a more classical bent, a cross between "The Flying Dutchman" and "Prometheus Bound".

The regulatory impulse to prevent a crisis that has already come and gone is a constant feature of financial and economic processes. It invariably sets the stage for the next unexpected and therefore devastating crisis.

In the present case, investment banks are being forced from their traditional roles as market makers, willing to accept a small, constant bid/offer spread as compensation for supplying liquidity when sellers are compelled by circumstances. They cannot provide this function because its exercise often compels them to buy and take on to their books large quantities of securities, which, under the lens of 2008, are regarded by regulators as enormously risky. Those specific assets that declined the most during the worst of the 2008 liquidity are designated as the most dangerous, regardless of their inherent fundamental value. Banks cannot afford to own them.

The traditional position of a market maker was, in effect, a form of volatility selling or insurance underwriting, in which they could cushion extraordinary displacements in markets by using their balance sheets to take on risks that markets wished to dispose of. The ability of many to manage these risks was certainly found wanting during 2008, when the natural function of absorbing risk in the normal course of making markets mutated into active, risk seeking through relentless expansions of leverage. The de facto failures that resulted were clear reminders of the consequences involved in providing insurance without reserves.

The yield of natural carry trades that deposit taking and market making institutions should normally enjoy has been effectively eliminated by regulation that requires massive amounts of capital behind any asset that suffered in 2008. Instead, banks have been forced to bid aggressively for the same safe securities that the Federal Reserve and other central banks have been removing from circulation in their various forms of quantitative easing. The result has been exaggerated yield compression across the entire fixed income space.

Participants that are largely free from any regulatory scrutiny are filling the vacuum in markets left by the withdrawal of natural market makers. Their approaches involve income creation through the regular sale of volatility; either in the securitization of new asset classes or the application of leverage across yield and credit curves. In certain instances the regular selling of options, puts and calls, is integral to the manufacture of apparently stable yields.

The current wave of volatility selling appears to be dominated by investment funds. These include public and private forms, across a wide range of styles. The risks inherent in these structures vary according to the degree to which the underlying asset's volatility and output can diverge from its forecasted path.

A second set of risks consists in the stability and cost of the funding that supports those structures that utilize leverage.

The common thread across all elements of the risk spectrum arising from wagers on "normalcy" (adherence to recent history) is the willingness of the Federal Reserve to maintain the exact course set forth in its extensive forward guidance. This path is being taken as a near guarantee by those willing to utilize market based, short-term or variable rate funding to support their short-volatility positions.

Given the structural position of markets at present, the large-scale risks lie in the direction of economic strength rather than weakness. The former is the only condition under which the Federal Reserve would be compelled to back away from its accommodative guidance. It is this risk that underpins the current construction of our portfolio.

May 29, 2014

Michael C. Aronstein
President, CIO & Portfolio Manager

The information provided herein represents the opinion of the Portfolio Manager and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice.