HOLT CAPITAL
PARTNERS, L.P.

FIRST QUARTER FINANCIAL MARKET COMMENTARY

"NINETY DAYS IN NINETY SECONDS"

MARCH 31, 2014

A QUIET QUARTER

- The first quarter was characterized by a fairly even split between positive and negative data points. Among the most significant negative factors were geopolitical concerns that centered on Russia's actions in Ukraine, slowing economic growth in many emerging markets, and extreme winter weather conditions domestically. Offsetting these concerns were fourth quarter earnings reports that were mostly better than expected, a decline in intermediate and long term interest rates, and a lack of drama in Washington regarding the budget and the debt ceiling. These issues drove stocks slightly lower in January and produced a modest, but sustained, rally throughout February and March.

WHAT IS THE UNEMPLOYMENT RATE SAYING ABOUT WAGE INFLATION?

- The conventional wisdom maintains that high unemployment levels and an abundance of available labor will limit inflationary pressure on wages. However, it is possible the current labor market is much tighter than the headline figures would imply. The jobless rate for the short term unemployed is currently just 4.2%. That is near the lowest levels of the past six years and below the average of the past sixty-five years. Individuals who have been jobless for only a short period of time often have more current skill sets and are more appealing to employers. Studies have shown that as the supply of short term unemployed workers declines, higher wages are often necessary to fill vacancies. The Federal Reserve is on record with the view that inflation is too low and that a slight rise would be desirable. They may see their wish granted.

HOW BIG IS THE PIE OF CASH ON CORPORATE BALANCE SHEETS?

- Cash in corporate piggy banks is at an all-time high. Excess cash held by S&P 500 companies is approaching $1.5 trillion. In order to put this amount into perspective, it is large enough to acquire 60% of the Russell 2000 Index, a major small-cap stock benchmark. These high levels of cash, combined with low interest rates and limited organic growth opportunities should result in an increase in strategic merger activity.

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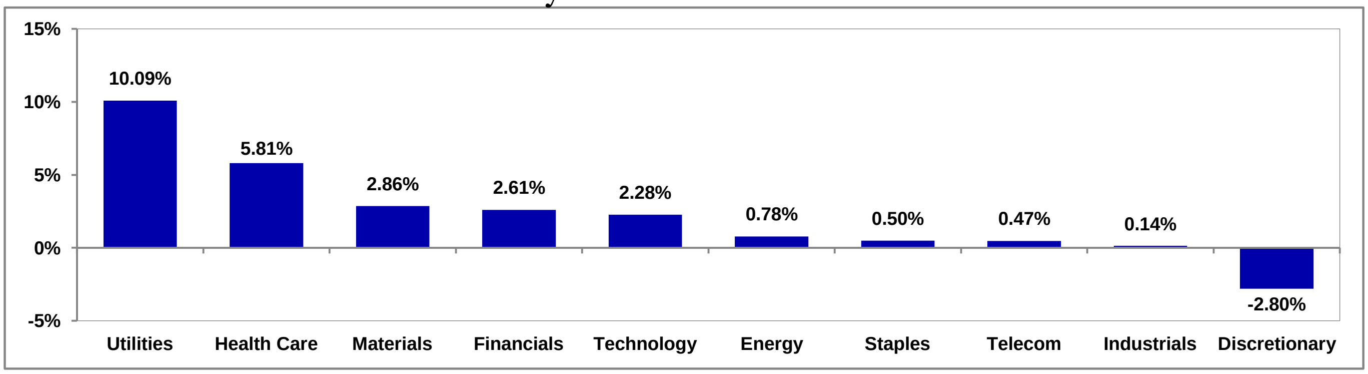
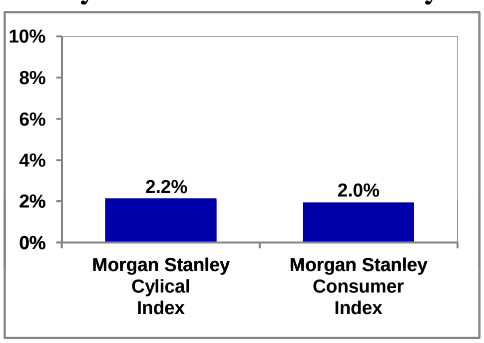
First Quarter Investment Performance (including income)

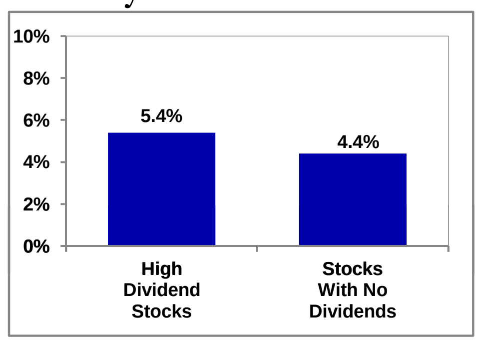
By Economic Sector



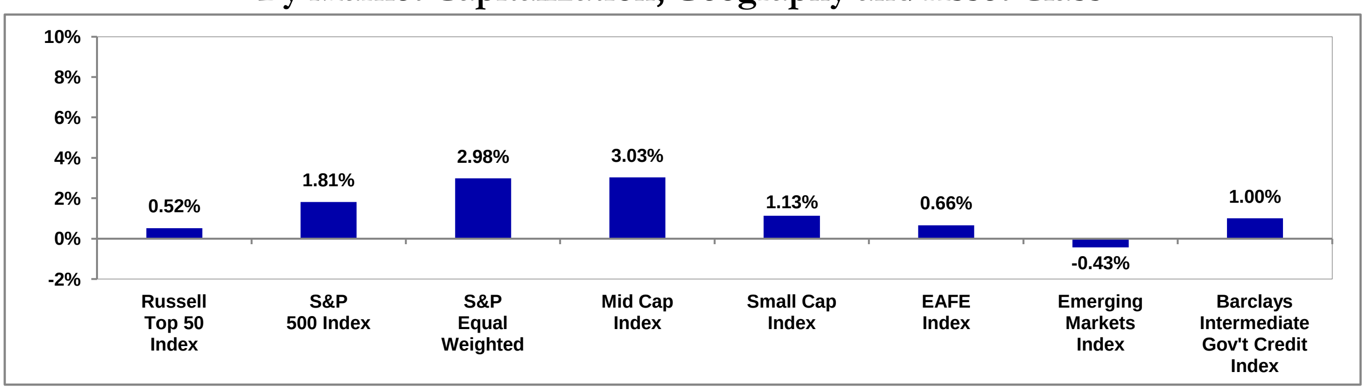
By Economic Sensitivity



By Dividend Yield



By Market Capitalization, Geography and Asset Class

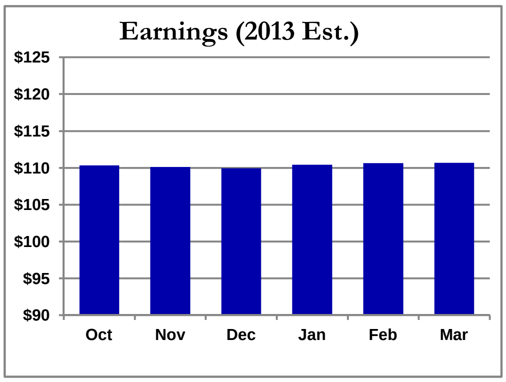


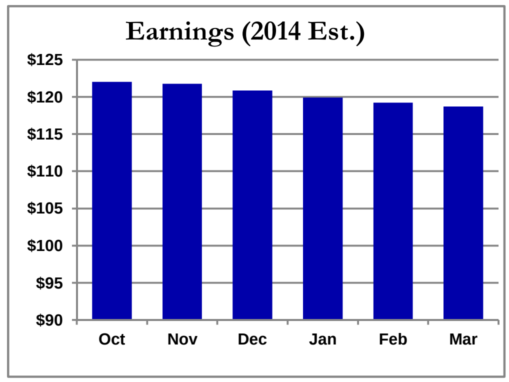
- The first quarter represents somewhat of a reversal in sector performance compared to 2013. The utilities sector rocketed from near the bottom last year to be the top performer in the first quarter. Likewise, consumer discretionary and industrial sector performance retreated from the top of the 2013 rankings to the bottom two slots for the quarter.
- Across almost all market capitalizations and asset classes, returns hovered between one and two percent during the first quarter.

EARNINGS AND VALUATIONS

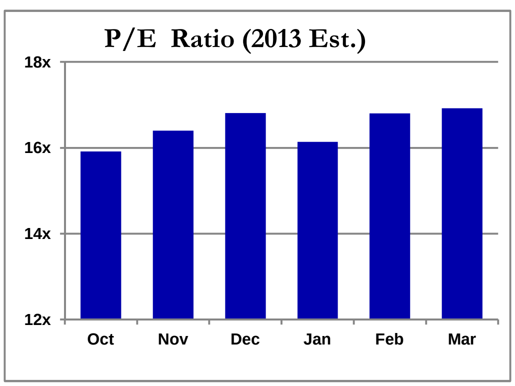
- Although the trend is imperceptible in the bar graph, earnings in 2013 benefited from stronger than expected fourth quarter results. However, a majority of companies cut their guidance for 2014 earnings during the first quarter. Severe winter weather was the most frequently cited culprit by companies and investors generally accepted this reasoning and are viewing these estimate revisions as non-recurring.

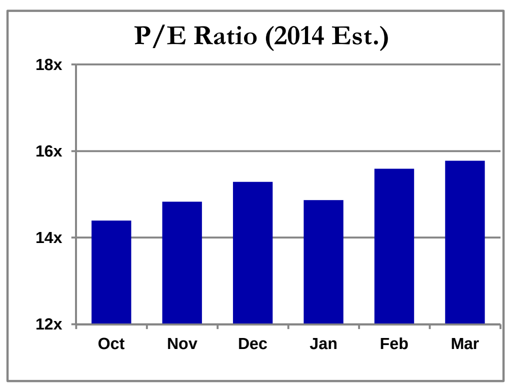
S&P 500 Earnings Estimates





S&P 500 P/E Ratios





CONCLUSION

- Earnings growth and valuations continue to be supportive of higher stock prices by year end. The Federal Reserve is successfully walking a tightrope of reducing economic stimulus, i.e. tapering, while also affirming its desire to hold short term interest rates abnormally low for an extended period of time. Consumer balance sheets continue to improve, driven by both rising home prices and declining debt burdens. The long term trends of energy independence and a manufacturing renaissance continue to be in place. Short term volatility can impact market prices at any time, but the long term outlook for stocks remains positive.