November 1, 2013

First Long Island Investors, LLC

September 30, 2013

"The stock market is filled with individuals who know the price of everything, but the value of nothing." Philip Fisher (Noted investor and author of *Common Stocks and Uncommon Profits*)

Summary Review

The third quarter was a very successful one for our clients where meaningful gains were achieved in our defensive and traditional equity investment strategies. These followed substantial gains achieved in the first two quarters. Performance of equity strategies for the year now ranges from 10.7% (one of our defensive strategies) to 19.3%, net of all fees. At the same time, bond markets continued to trade in a narrow range for the quarter, somewhat helped by the Fed's decision at a meeting in September to not taper its bond purchases. This resulted in very modest recent gains for bond investors. Still most bond investors, including our clients, have incurred small losses year to date. Alternative investment classes did not fare nearly as well as traditional equities (in particular, long/short and market neutral strategies). The "wall of worry" continues to gnaw at investors as they digested the government shut down, weaker economic data, and geopolitical issues. This is causing some investors to continue to leave large amounts in cash, or overly allocated to bonds, which have virtually no expected return after inflation.

The above quote is timely as it speaks to the issue of value given the recent rise in the stock market and the continuing low-interest-rate environment. So, one asks, where do we go from here and where is there true value for investors? Is it in stocks, bonds, real estate or private investments? Our job as wealth managers and investors is to constantly evaluate the long-term prospects of the asset classes we invest in, and the opportunities within those asset classes. We use a disciplined approach to valuation and compare the reasonableness of valuations across the different asset classes to which we deploy capital. We recommend that our clients allocate their capital where we believe the expected risk-adjusted return is most compelling. At the same time (because we do not have a crystal ball), we maintain needed diversification throughout our security, defensive equity, and traditional equity baskets, as well as private investments (where appropriate). This provides some insulation from unwelcome surprises. It also provides access to investments that are not always correlated to each other.

For now, we still view our defensive equity investments as providing the greatest risk-adjusted return opportunities over the longer term. This reflects our optimism about select corporate earnings; cash flow from both dividends and selling call options, balanced with the uncertainty in Washington from both a political and monetary standpoint. In addition, given the low interest rate environment, mountain of money on the sidelines, and the continued skepticism of many individual and institutional investors to owning stocks, we still believe there is value and upside in both our defensive and traditional equity strategies. Bonds, on the other hand, do not present much value in our opinion and returns will be hard pressed to exceed the rate of inflation on an after-tax basis. This is especially the case as modest interest rate increases can be expected in connection with the Fed's ultimate decision to taper its bond purchases. Thereafter, sometime in late 2014 or 2015 we expect an increase in the Federal Funds Rate. These changes to Fed policy will likely result in some volatility. Just how much will be determined by the extent to which an offset could be forthcoming from a better economy. At this time with global growth still modest and pro-growth fiscal policies still impeded by political paralysis, it is hard to predict just how severe the volatility will be. Over time however, the earnings yield, dividend yield and growth prospects of the companies we invest in (depending upon the specific strategy) should continue to provide appreciation potential as well as dividend growth.

Internationally, emerging markets are not as strong as had been hoped for, and the demand for commodities remains tepid, slowing commodity-driven economies, such as Brazil. Europe, having stabilized, seems to be growing at a very modest pace and possibly still faces some banking issues. These factors have not been reflected sufficiently in valuations for companies outside the U.S., in our opinion. Accordingly, we remain underweight international strategies, but are watching closely for any signs of significant economic improvement or more compelling valuations.

The combination of Washington dysfunction, eventual Fed tapering, weaker emerging markets, slow employment growth, and a solid housing recovery coupled with modest inflation makes for an interesting investment environment. This should auger well for investment in companies that can generate revenue and earnings growth while growing free cash flow. The unsettling factors keep us somewhat skewed towards our defensive equity strategies (one of which continues to perform better than its benchmark for the sixth year in a row, while the other ranks in the top 10% of large-cap investment strategies since its inception based on the PSN database), while still maintaining a meaningful exposure to traditional equities. This seems to be the right path while continuing our modest fixed-income exposure until rates are more compelling. We still believe that corporate earnings are growing thereby supporting equity investing, and stock market skepticism, along with low-returning bonds and cash, should ultimately give way to greater allocations to equities. This could provide the next leg up in the equity markets.

As you know, some of our strategies utilize among best of breed outside managers. We meet and or speak with them on a quarterly basis. Most recently, one of our small-cap growth managers came to visit us from Minneapolis. This manager has a great record and they are seasoned veterans. The point we would like to share with you is our continued amazement at the great companies that are spawned in our country. This manager's portfolio consists of about 50 companies, virtually none of which one would know by name, that are growing robustly and have great future growth potential. When one views these as business investments and not just stock symbols, they take on an added dimension. We and the outside managers we work with continue to find such opportunities for you.

Finding value in bonds, stocks, or private investments is a very necessary pursuit for us as investors (and remember, we invest side by side with you in all strategies except bonds, which are personalized for each client). We as professionals spend the majority of our time doing that for our clients. It requires skill, time, experience, and judgment. We remain committed to that process on your behalf and believe that you, as our clients, will have the opportunity to grow your net worth while we never lose sight of preserving your capital.

Please call us with any questions you might have. As a reminder, our Thought Leadership Series continues on November 12th at The Garden City Hotel. Stuart Rabinowitz, the President of Hofstra University, will be our guest speaker. He will discuss the future of private higher education. This is a very hot topic being discussed around the country, including by President Obama. We are also very pleased to announce that we are celebrating our thirtieth anniversary this month, and we will make special note of that at our seminar (including a useful give away). Please join us if you can. (Please RSVP to Lisa@fliinvestors.com.)

Best regards,

Robert D. Rosenthal	Ralph F. Palleschi
Chairman and	President and
Chief Executive Officer	Chief Operating Officer

*The forecast provided above is based on the reasonable beliefs of First Long Island Investors, LLC and is not a guarantee of future performance. Actual results may differ materially. Past performance statistics may not be indicative of future results.

Disclaimer: The views expressed are the views of Robert D. Rosenthal and Ralph F. Palleschi through the period ending September 30, 2013, and are subject to change at any time based on market and other conditions. This is not an offer or solicitation for the purchase or sale of any security and should not be construed as such. References to specific securities and issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.