2nd Quarter 2015

Volatility is picking up in 2015 and we don't see that subsiding in the near term.

Global Monetary Policy: Divergent monetary policy paths among major economies could provide interesting opportunities in relative valuation and returns ahead. With the US expected to begin tightening in 2015, albeit later than previously anticipated, the timing and duration of rate hikes will be closely monitored and potential repercussions taken into consideration with asset allocation. European monetary policy makers are taking notes from the Fed and have begun quantitative easing. This, combined with low interest rates, could lead to a "risk-on" trade (where investors are willing to accept more risk than to stay in low interst rate alternatives) as it did in US markets. We have begun investing in European Equities as a Strategic Satellite in our investment models to be positioned to take advantage should this thesis play out.

Oil Price Volatility: The longer oil prices remain at discounted levels, the more money consumers will have available to spend, invest or save. There is typically a lag from when prices decrease until that additional discretionary income starts to filter into the economy. This tail wind helps consumers in general, but on an incremental and relative basis, benefits consumers in countries who are net oil importers. As part of our positive view on Europe, we see increased consumer discretionary income, combined with improving economic growth conditions and accommodative monetary policy as a recipe for strong potential equity performance.

Equity Market Valuation: Based on historic cyclically adjusted valuation measures, the US market is currently above average in valuation. This is not to say we are expecting a major pullback, but we have begun trimming overall equity in portfolios to our target weight per Investment Policy Guidelines. For example, in a 60% equity target allocation that has increased to 68%, we are trimming back to the 60% target. Most of this selling will come in US Large Cap which at current levels seem to be the most stretched. Some of the proceeds will be invested in European Equity as well as other asset classes and cash reserves will be built – ideally to take advantage of a pullback should one occur.

Strengthening Dollar: Our view on this topic has not changed since our last newsletter. We continue to see this as a potential headwind for American- based multinational companies since US exports become less attractive and earnings from abroad, when converted to dollars, are worth less. Conversely, European companies who export or earn revenue from abroad may benefit from a weaker Euro (another benefit of ECB quantitative easing). These ebbs and flows are cyclical in nature. As expensive dollars flow to economies where currencies are less expensive it leads to growth which in turn strengthens their currencies.

Asset Allocation: We have made some recent changes to our investment models by adding a specific European Equity strategy as a Strategic Satellite. Our current views are cautiously optimistic in US markets. That being said, we would rather take some of the gains we have experienced in US investments that have enjoyed above average returns over recent years and build cash reserves. Though not paying much interest, cash serves as an important non-volatile asset class that provides liquidity for cash flow needs as well as giving us the potential to deploy in market pullbacks. Our rebalance strategy is one where we sell appreciated assets (sell high) and buy asset classe that have underperformed (buy low). We do not want the tax tail to wag the investment dog!

Geopolical Environment: We continue to monitor the events around the world with keen interest. Whether it is negotiations with Iran, or potential new Trade Agreements, the markets typically digest news quickly and react. If outcomes are favorable, markets could continue to run. If not, we could have an opportunity to deploy cash positions as we have already suggested. Much of what we read and hear indicates that a properly structured Trade Agreement could provide better opportunities here at home as we manufacture more goods to be sold to large populations outside of our borders. The world has become so much more connected with technology and on-time news 24 hours a day. The saying that "if the US sneezes, the rest of the world catches a cold" may change as larger countries with higher populations influence outcomes that affect us!

We greatly appreciate the opportunity to work with you and we would love to hear from you, so please feel free to contact us if you would like to set up a meeting. As a reminder, we have posted our most recent ADV and Privacy Notice to the portal and would be happy to send a hard copy if you would like.

We hope you are enjoying the Spring weather and looking forward to summer!

Patti, Ryan, Carlton, Sean and Kristal