Fourth Quarter Commentary, January 2015

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Another Strong Year

The Year 2014 concluded with another round of strong returns. Although 2014 did not match the returns of 2013, this historic rally did press on with the S&P 500 posting better than average gains. Even more significant was that the Barclays U.S. Aggregate Bond Indexed inked a return of 6.0% after a tough 2013. Ironically, many in the investment world thought 2013 marked the year that bond rates would start to march higher only to be proved wrong in 2014.

This offers a valuable reminder in why we allocate our portfolios with both stocks and bonds, in alignment to our client's risk tolerance. Although we are concerned about the inevitable rise in interest rates adversely impacting our fixed income returns, it is ineffective to time this rate reversion or forecast its severity. In our experience, maintaining a balanced portfolio of stocks and bonds that are rebalanced annually should yield meaningful long-term results. We cannot control the random geopolitical factors that impact market volatility, events that bolster the U.S. dollar to new highs, nor can we control why bond yields to drop. However, what we can control is to remain disciplined in our overall investment thesis.

Domestic Equity

Wrapping up the fourth quarter, U.S. stocks recorded solid returns with the Russell 2000 leading the major indices 9.7%, followed by the S&P MidCap 6.4% and Nasdaq Composite 5.4%. On a historical note, the Nasdaq regained highs last achieved during the tech bubble of the 1990's, and the S&P 500 and Dow Jones Industrial Average also managed to reach new highs in December 2014. Interestingly, despite these highs, nearly 83% of domestic large cap fund managers underperformed the S&P 500. In most instances this underperformance resulted from managers turning defensive after 2013.

Another headwind that many managers faced was being underweight Apple, which had the largest weight in the index and concluded the year up roughly 40%. Further, many managers sought safety in the energy sector, which severely impacted performance throughout the quarter. Starting in October the price of oil had a precipitous drop with energy lagging all the other sectors in the S&P 500 -10.7%. Utilities were the leading sector, finishing the quarter up 13.2%, and led all the major sectors for the year concluding 2014 well in the black up 29%. The strong performance of 2014 by utilities countered their relative underperformance of 2013. These examples serve to highlight the ebb and flow of sector performance, and hopefully reinforce the idea that it does not pay to chase performance as last year's losers may be next year's winners.

Fixed Income

Fixed income investors did not hit the panic button as many analysts predicted due to the conclusion of quantitative easing. Bolstered by demand from geopolitical tensions and a strengthening dollar, fixed income did quite well. The aggregate bond index finished up 5.97%, municipal bond index up 9.05%, while the high yield bond index lagged most of the indices finishing 2014 up 1.86%. As we cited above, the indexes were certainly hard to beat in 2014, and domestic bond managers had an equally difficult time as equity managers. The Barclay's U.S. Aggregate return of 5.97% beat 73% of fund managers in the intermediate-term bond Morningstar Category (Morningstar). Internationally, the global aggregate bond index finished down 3.08%, and with this selling pressure, there may be some long term opportunities arising. However, country and issuer specific risks need to be evaluated to determine these respective opportunities.

International

Relative to historic price-to-earnings multiples, international equities have become more attractive. Many uncertainties remain both in economic and political policy in developed and emerging nations, but for long term investors it is hard not to note the potential. Other than the All Country Asia ex-Japan index, 2014 was not a good year for the international markets as most MSCI indexes had negative returns: EAFE -4.48%, All Country World ex-U.S. -3.44%, Europe -5.68%, Japan -3.72%, All Country Asia ex-Japan 5.11% and Emerging Markets -1.82%.

Investors have been well rewarded by minimizing their international exposure since 2008, as the financial markets in the U.S. have significantly outpaced the rest of the world. However, it is important to consider that the U.S. holds a world capitalization of roughly 50%, and if we limit our exposure to the international markets we may be hurting ourselves for the long-run by not participating in the growth potential of the other 50% of the world. As a firm, we made the judgment to overweight domestic equities and fixed income, which is a move that we believe have served clients well.

Moving forward, though, it may be prudent to start to look for more international exposure, but at a slow pace. Further unrest and currency devaluation is likely to occur in the world's markets as evidenced by the dollar's 2014 rally, but may offer the opportunity of a deep value entry point for the longer-term investor at some point in the near future. Specifically, the ECB has learned from its errors in creating negative short term rates for banking institutions as this muted earnings, and further dampened growth in developed Europe. However, it is very likely that Mario Draghi and the ECB will take a page from the U.S. Fed's playbook and start quantitative easing on a scale comparable to the United States. If this is the case, it is likely developed international markets will rally, and the strong returns similar to the U.S. may also be realized by the international markets.

Summary

Successful investing is a very relative term because the end goals are different for everyone. In other words, investing is not done with a cookie cutter. As both financial planners and investment managers, we seek to find the investments that make the most sense for you and your goals. As the previous sections indicated, there are many factors to consider when it comes to investing. Our goals, when it comes to these variables, are to ensure you're diversified and to align your investments with your unique time horizon and risk tolerance. It is this formula that makes for successful investing.

As always we appreciate your continued confidence in our firm. All the best for 2015!

U.S. Bond Market		
Index	**Fourth Quarter 2014**	**Year-to-Date**
Barclays Capital U.S. Aggregate Bond Index	1.79%	5.97%
Credit Suisse High Yield Index	-1.59%	1.86%
Barclays Capital Municipal Bond Index	1.37%	9.05%
Barclays Capital Global Aggregate Ex-U.S. Dollar Government Bond Index	-2.99%	-3.08%
J.P. Morgan Emerging Markets Index Plus	-0.55%	7.43%

U.S. Stocks		
Index	**Fourth Quarter 2014**	**Year-to-Date**
DJIA	5.20%	10.04%
S&P 500	4.93%	13.69%
Nasdaq Composite	5.40%	13.40%
S&P MidCap 400	6.35%	9.77%
Russell 2000	9.73%	4.89%

International Averages		
MSCI Index	**Fourth Quarter 2014**	**Year-to-Date**
EAFE (Europe, Australasia, Far East)	-3.53%	-4.48%
All Country World ex-U.S.	-3.81%	-3.44%
Europe	-4.30%	-5.68%
Japan	-2.40%	-3.72%
All Country Asia Ex-Japan	.17%	5.11%
EM (Emerging Markets)	-4.44%	-1.82%

Disclosure

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You should carefully consider the investment objectives, potential risks, management fees, and charges and expenses of any investment before investing. Every Fund's prospectus contains this and other information about the Fund, and should be read carefully before investing. Past performance is no guarantee of future results. The investment return and principal value of an investment in Mutual Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

Fluctuations of the overall stock market due to economic, political or other factors may affect the equity related holdings of the investor. Asset classes and sectors may rise and fall at varying degrees.

Sectors such as oil & gas, real estate, and precious metals tend toward higher volatility than broader market segments.

Bond and other related fixed income investments are subject to the rise and fall of interest rates and changing assessments of issuer credit worthiness and ability to pay.

Cash Investments Risk - the need to hold a given amount of an investor's portfolio in cash or other money market instruments to meet withdrawals or respond to anticipated unfavorable market conditions could result in a lower return than if the cash had been fully invested.

Investments in real estate investment trusts (REITs) and real estate related securities involve special risks associated with an investment in real estate, such as limited liquidity and interest rate risks and may be more volatile than other securities. In addition, the value of REITs and other real estate related investments is sensitive to changes in real estate values, extended vacancies of properties and other environmental and economic factors.

Investments in international markets present special risks including currently fluctuation, the potential for diplomatic political instability, regulatory and liquidity risks, foreign taxation and differences in auditing and other financial standards. Risks of foreign investing are generally intensified for investments in emerging markets.

An investment in an exchange-traded fund (ETF) generally presents the same primary risks as an investment in a conventional fund (i.e., one that is not exchange traded) that has the same investment objectives, strategies, and policies. The price of an ETF can fluctuate up or down, and the Fund could lose money investing in an ETF if the prices of the securities owned by the ETF go down. In addition, ETFs may be subject to the following risks that do not apply to conventional funds: (i) the market price of an ETF's shares may trade above or below their net asset value; (ii) an active trading market for an ETF's shares may not develop or be maintained; or (iii) trading of an ETF's shares may be halted if the listing exchange's officials deem such action appropriate, the shares are delisted from the exchange, or the activation of market-wide "circuit breakers" (which are tired to large decreases in stock prices) halts stock trading generally.

Performance reporting for the above indexes is obtained from publicly issued and available data from a variety of sources including financial web sites such as Morningstar ®, Yahoo Finance ®, and The Street.Com®.