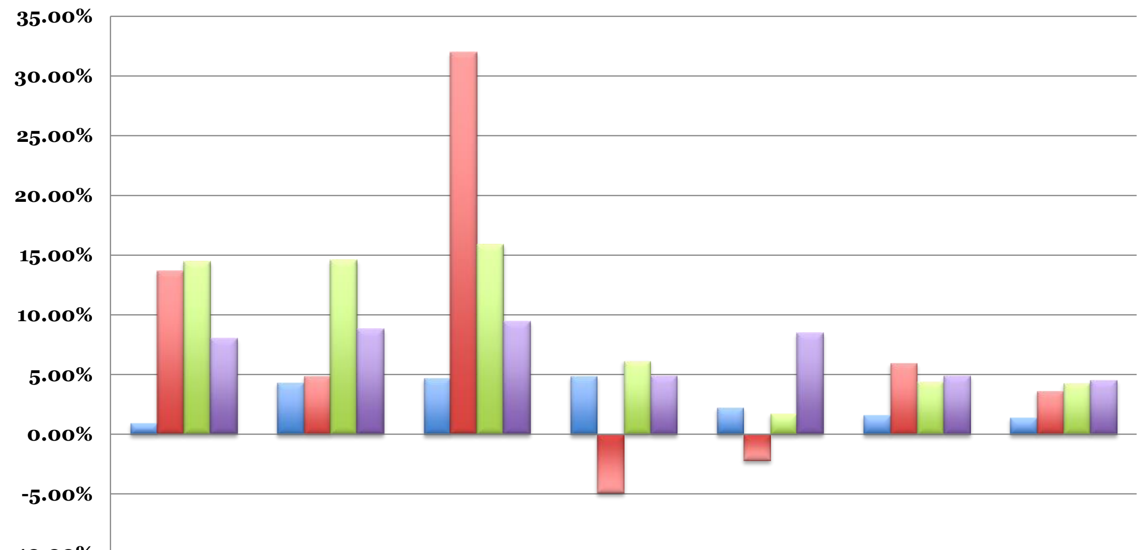
Market Summary and Outlook First Quarter 2015

Despite considerable volatility, the US stock market as represented by the S&P 500 was essentially flat during the quarter. The market variability was due to the sharp drop in oil prices, a strong US dollar, and uncertainty regarding when the Federal Reserve would raise interest rates. All of these issues are inter-related, and were also the cause of volatility in the latter half of 2014.

Worldwide equity markets reached new highs during the first quarter; even international equity markets expressed in US dollars were positive (a change from last year, when they were negative). This is despite the US dollar reaching an 11 year high against the euro. As seen in the table below, all categories were positive and were better than the S&P 500, a trend we have not seen for several years. Since we do not know whether this trend will continue, this is an argument in favor of maintaining a diversified portfolio.

Major Benchmark Performance through 3/31/2015



	S&P 500	US Small Cap	US REITs	Foreign Developed	Emerging Markets	US High Quality Bonds	TIPS
1Q15	0.95%	4.32%	4.71%	4.88%	2.24%	1.61%	1.41%
2014	13.69%	4.89%	32.00%	-4.90%	-2.19%	5.97%	3.64%
5 Year (ann.)	14.47%	14.57%	15.89%	6.16%	1.75%	4.41%	4.29%
10 Year (ann.)	8.01%	8.82%	9.45%	4.95%	8.48%	4.93%	4.56%

Source: DFA

We expect continued volatility as the energy sector and world economies interact and oil tries to reach an equilibrium price. As of 4/06/15, it is still hovering around $50 per barrel, which is around half of its price in mid-2014. Cheaper oil prices continue to benefit consumers, as do oil importing economies such as Europe and Japan. Energy economies, however, such as North Dakota and Texas, are now starting to see the effects of layoffs in shale oil production and declines in such tangential sectors as local services, real estate, and capital equipment.

Economists do not expect the US dollar to weaken significantly in the near future. The effect from a stronger dollar combined with lower oil prices will likely be lower GDP, and this could last through next year. Despite this, US unemployment is still dropping and economists remain cautiously optimistic about US growth in the coming quarters. Internationally, the outlook is better in terms of valuations, particularly in developed markets. The benchmark for developed markets (MSCI EAFE) has not yet repeated its October 2007 high. In comparison, the S&P 500 presently exceeds its October 2007 high by over 30%. We continue to recommend international exposure.

The theme is largely the same as it has been for the past several quarters – namely, expect volatility for a variety of reasons. We want to set expectations for potentially more modest portfolio returns, especially considering economists have very low expectations for the upcoming earnings season. While nothing is impossible, we do not expect the S&P to generate double digit returns as it has for the past 3 years.

Portfolio Specific

As you know, we do not believe in timing markets. We do strongly believe in rebalancing portfolios by taking profits on the highest returning funds and buying those that are out of favor, in order to maintain a long term stock/bond allocation. Here are some portfolio specific changes we are looking to make (these are not blanket recommendations since we evaluate each of our clients' unique set of circumstances):

- The S&P 500's valuation is now slightly higher than its 25 year average. We are taking profits from US stock funds where appropriate. We weigh this sale against whether there will be a significant capital gain. We recommend rebalancing to buy international equity funds which have appreciated more slowly over the past few years, but have much more attractive valuations.
- We are consolidating foreign bond funds. If we can realize a loss in a taxable account (tax loss harvesting), we will do so. In general, we are focusing on developed market bonds in hedged funds. We are still maintaining exposure to emerging markets bonds as a component of other funds.

Financial Plan as your Benchmark

We would like to remind our clients that your true benchmark is your financial plan which we update and refer to regularly. We use conservative assumptions in these plans which allow for slower growth years (i.e. the past several years' returns have exceeded that average).

Conclusion

As always, our best advice for positioning portfolios is to maintain a long term outlook. Based on historical data over many different time periods, we still find diversification is the best long term protection against risk. We will do our best to keep you informed of developments; however, please don't hesitate to call anytime with questions or concerns.

Sincerely, Janet & Barry