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WEALTH MANAGEMENT

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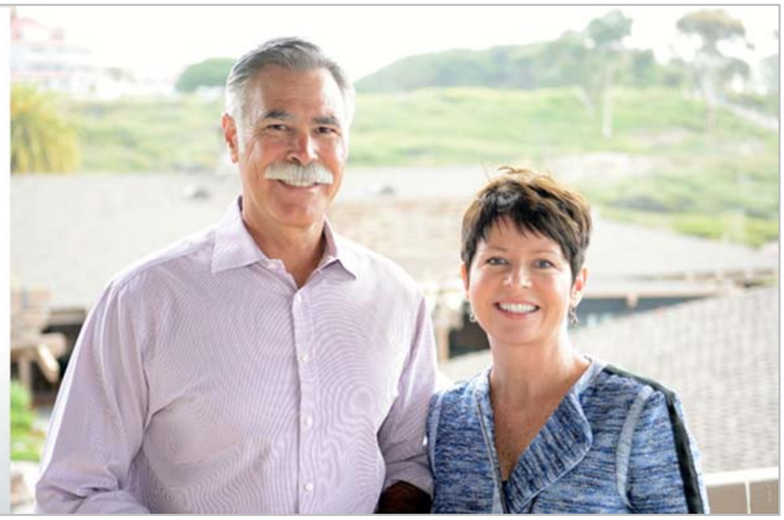
SECOND QUARTER 2015

April 21, 2015



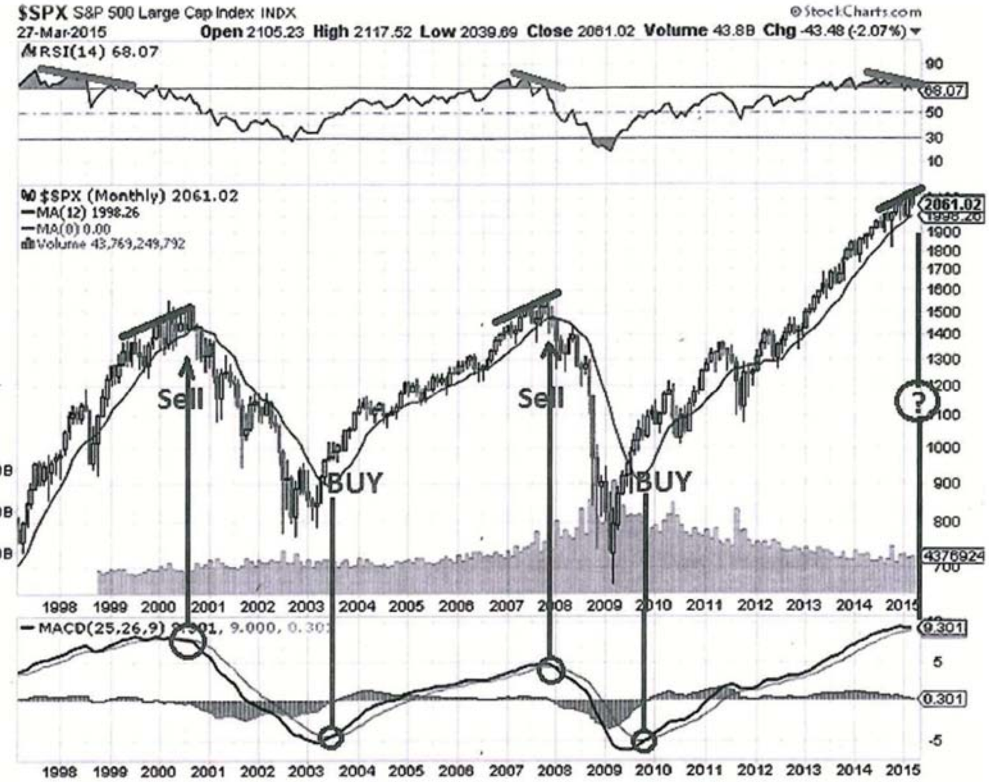
To Our Investors:

By: Mark Van Mourick, CEO
Leslie Calhoun, CIO/COO

Market Review by Mark:

US ECONOMY: After years of tightly banded earning results for public companies, first quarter 2015 earnings are showing large discrepancies in results due to our strong US Dollar, drastically lower oil prices and a tightening wage market. This has caused a wider disparity in price returns that favor smaller, domestic companies that look more like Main Street. The US economy is enjoying continued modest growth but both US stock and bond prices are near all-time high valuations and are vulnerable to setbacks if the fine balance of ultra-low inflation and exceptionally high profit margins gets disruptive. (See our Important Economic Update from April 1st on the Optivest website.)

STOCK MARKET: Our prediction and reallocation of stocks from the US to Europe provided a performance edge since European stimulus boosted returns in comparison to the virtually flat performance of large US stocks. Unfortunately, US stock prices have moved little since November 2014 making good returns hard to come by. Our “caution flag” has been in place since April 1st, with the markets still trading in a narrow range between breaking down (which would cause us to reduce US equity exposure) and gaining new highs (giving us an “all clear” sign). The below chart borrowed from The Dow Theory newsletter from April 1, 2015 shows the track record - without false calls - of one of the main stock timing indicators we use. It has come close, but has not produced a “sell” signal yet; we monitor it every day.



BONDS: Interest rates have gone down for a record five quarters in a row despite the Fed's announced intention to raise short-term rates later this year. This is the direct result of negative European interest rates for up to 10 year maturities (in the case of Switzerland) and a strong US Dollar. It is hard to imagine lending money to a borrower and getting less than your principal in return. It is even harder to fathom being a borrower and having your lender pay you to borrow. Locking up longer-term money in this kind of bond market does not interest us; we remain defensive and hold shorter-term bonds.

Portfolio Management by Leslie

The US stock market peaked in first quarter and according to P/E ratios, US stocks are either expensive or at least richly valued in light of expected US growth rate and a stronger US Dollar. During first quarter, our Dollar rose 13% against the Euro.

It's typical for investors to believe they have to match the performance of the stock market because the S&P 500 and the DJIA are the pillars of our market and the press covers them daily. But where does that leave your portfolio during years when the S&P 500 has flat or negative performance? Between the peak of the S&P 500 in 2000 through today, the S&P 500 has fallen 45% two times, rallied two times, yet didn't return to that peak level of 2000 (breakeven) until 2013. Since then, the S&P 500 has rallied 31% which seems remarkable but in reality, it only averages out to a 2.34% annualized return over that 15 year timeframe. And as of today, we find it harder to find value in the debt and equity markets after a 5+ year bull market.

So we are managing your portfolios with the idea that high valuations for our US equity and fixed income markets do not support sustained outperformance of alternative asset classes. During Q1 we rebalanced your portfolios. The rebalance involved implementing a barbell strategy on US debt in anticipation of a flattening yield curve (balance of negative and intermediate duration bonds). We reduced our exposure to US Large Cap Equities and deployed those proceeds in a second push into Developed Non-US Equities because we believe there is greater return potential abroad. We added to our Managed Futures strategies. Additionally we exercised "in the money" warrants for all accounts that received them through the private real estate investment, Preferred Apartment Communities.

During first quarter, I visited three new real estate projects across the US to perform due diligence and I now have several options to offer. Mark and I have also visited with some low and non-correlated fund managers to find alternative investment strategies for your portfolios. These products may not be suitable for all of our clients but we will present them to you if we believe they meet your personal criteria.

Summary

We have reached a market condition where ultra-low interest rates have pushed traditional securities prices to very high valuations with low expectations for near-term returns. Know that we make all our moves with risk/reward ratios in the forefront of our minds. Our emphasis has been, and will continue to be, steadily building wealth through properly diversified investment portfolios. These portfolios are diversified over many asset classes with tactical moves employed as we see opportunities to achieve oversized returns or to protect capital.

Until next time,

Mark Van Mourick
Leslie Calhoun

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