Investment Manager Meetings Recap

November 13th, 2014

Investment Managers we met with:
Fidelity Investments, Delaware Investments, Goldman Sachs, American Funds, Columbia Management, Janus Funds, Neuberger Berman.

Macro Consensus:

In previous market updates, we have been saying that the market was overdue for some kind of a larger correction. On average the US Equity markets experience a 5% pull back two to three times per year and a 10% pull back on average once per year. Until October, we had not seen a 10% pullback since 2011.

The S&P 500 is up 10.99%, MSCI EAFE down (2.42%), and US Barclays Aggregate Bond Index is up 5.12% (10/31/2014).

It is important to note that the drawdown we experienced in October did not take us by surprise. In fact, we had already taken certain steps for clients and portfolios alike in preparation for this. The one thing we did not know, was when it would happen. We did feel that any type of drawdown would be short lived and this one was, dropping a total of 10% on intraday trading between September 18th and October 15th. Since that time we have already made up 9.77% of this drop as of yesterday.

In this week of Investment Manager Meetings the research has not changed much. The general direction of the US Economy is still felt to be continued slow improvement with no concerns of recession on the short term (2 year) horizon. US Manufacturing is making a huge comeback and the energy revolution is here for the next few decades. We have already seen a global impact of more global stability due to the US now being the largest producer of oil and natural gas.

Technology has had a huge impact on the energy revolution. Only a decade ago, the predicted supply of Natural Gas in the US was a 6-7 year supply, now with horizontal drilling it is expected to be a 90+ year supply.

Oil prices have dropped about 23% and are now at a multi-year low. This is a boost to the overall economy and puts more dollars in consumers' pockets. Two interesting facts we heard was 1) it is $20 per barrel cheaper to ship oil via a pipeline vs railway (hence we still like MLP's and Energy) and 2) the current cost for the US to bring a barrel of oil to market is about $60-$70 while it is costing Saudi Arabia about $90 p/b (less technology) and Iran about $120 p/b (less technology and sanctions).

In general the managers this week still favor Equities over Fixed Income and Fixed Income over cash. We did hear from several people saying they favored Alternative Investments over Fixed Income. Lastly, we started to see more of a separation in expected returns. General consensus was that equities should return anywhere from 5% to low double digits annualize over the next 5 years. There was also a separation from those that favored US over International.

Investment Manager Meetings Recap

November 13th, 2014

One area we did get a consensus on is the favor of Active management vs Passive management. Over the last several years we have seen the "Rising tide raises all ships". When a company made earnings they were rewarded quite a bit. If a company missed earnings, they were still rewarded, just less. The consensus now is that there will be a larger separation from the winners and losers and it will become more important to own the winners and avoid the losers. This lends itself to overweighting active management vs owning just the index. This held true on both Equities and Fixed Income.

We continued to ask a lot of questions as it relates to Domestic vs International equities. The story remains the same as last quarter; International continues to have better valuations than domestically however returns have still favored US stocks.

Thoughts on our Strategic Portfolios:

We did make some updates and changes over this last quarter. One of the simple things we did was a Strategic Rebalance in September. This allowed us to take gains in some of our winners like the Janus Global Life Sciences & Technology Fund and Transamerica MLP and Energy Income Fund.

Consistent with what we heard in our research meetings, we still feel that interest rates will be moving north over the next several years. While this has not occurred in any big fashion this year (they have just remained low), we are positioned in the portfolios for rising rates.

In years like this, we have to remind ourselves that diversification does not work every time it works over time. If we compare our portfolio returns to a US based index like the S&P 500, our returns would lag. This is because International is negative year to date. Vanguard has done a lot of long-term research and shows that the best split between US/Intl over the long run is a 60/40 split. We continue to believe this will hold true over the long run.

Potential changes/updates:

There are few changes that we are expecting in the remainder of 2014. We are continuing to watch what is happening overseas and especially in Europe as they add Quantitative Easing. We will also pay close attention to interest rates over the first half of 2015 as it relates to our fixed income holdings.

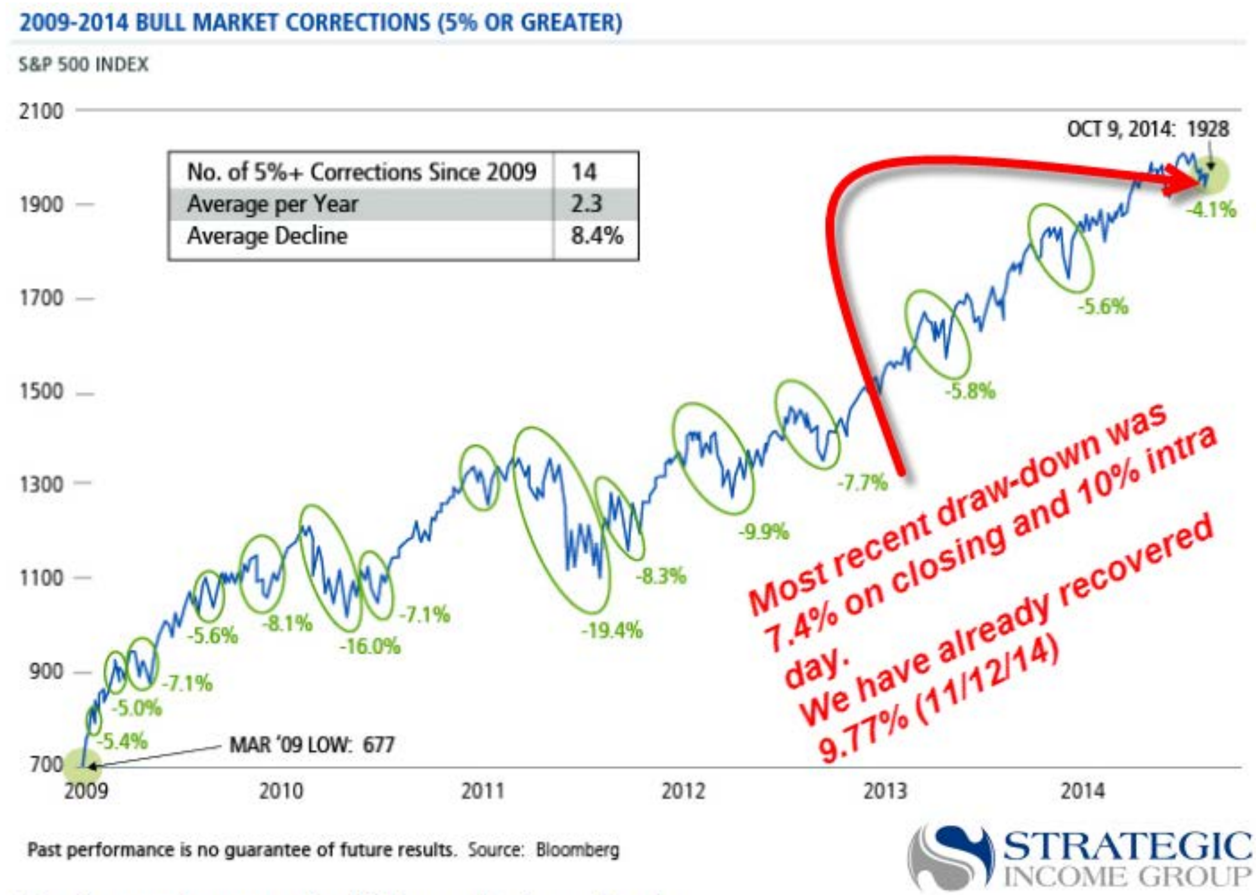
Final Thoughts:

Nothing has changed to our overall thesis with an overweight to equities, watching rates, keeping an allocation to our global themes (Energy, Dividends, Technology). We continue to be optimistic about the economy moving forward however fully expect that the trajectory of the markets will not be as steep as it has been over the last 5 years.

We feel confident with our current positions and believe that the increased volatility will be positive for clients that are in the Wealth Accumulations phase however could be a little more problematic for those that are in the Strategic Income Phase.

Investment Manager Meetings Recap

November 13th, 2014

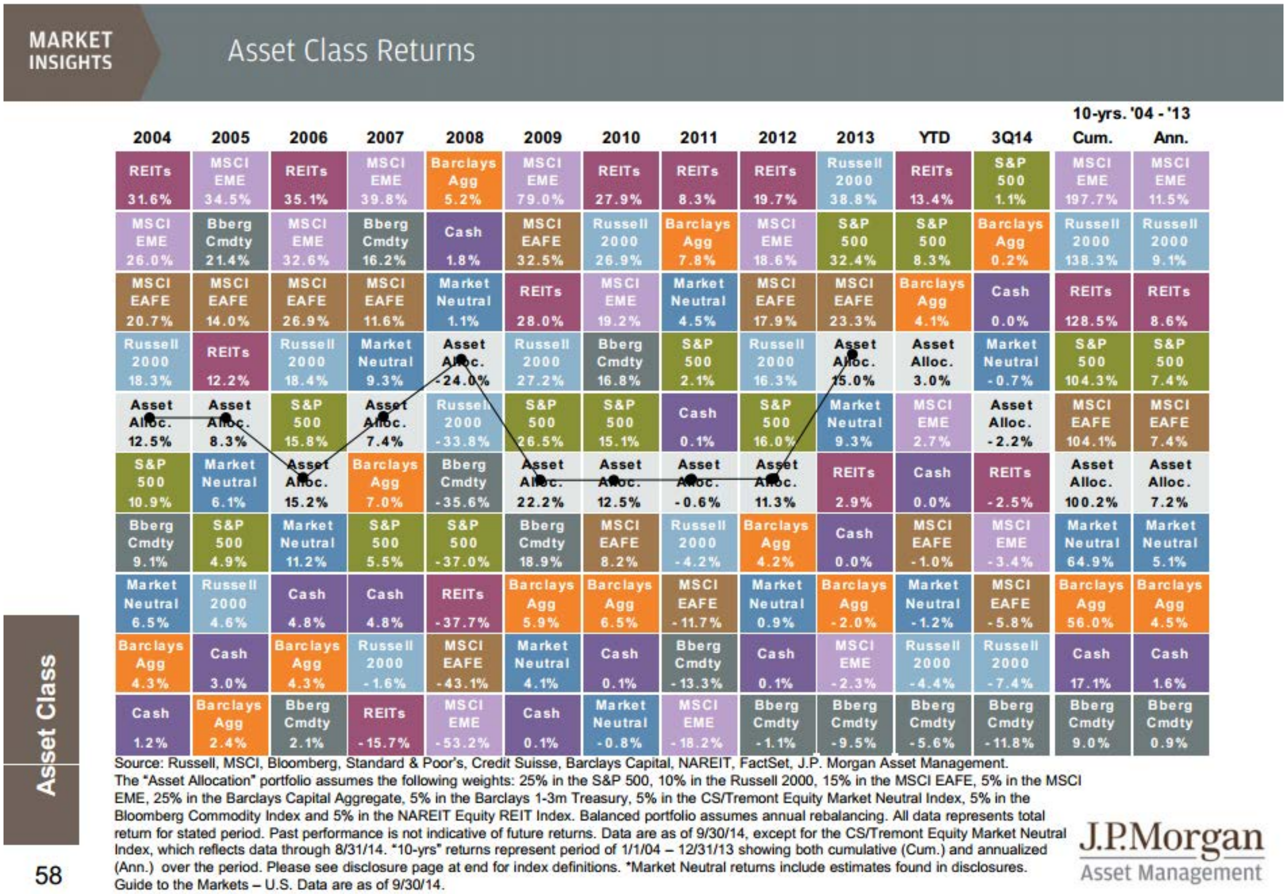


'ast performance is no guarantee of future results. Source: Bloomberg.

Drawdowns are not uncommon. The US Fed stopped pumping money into the economy in October of 2014, as they feel the economy is growing enough on its own. This did cause a short term selloff followed by a fairly quick recovery. These types of drawdowns will continue to happen.

Investment Manager Meetings Recap

November 13th, 2014



MARKET INSIGHTS

Asset Class Returns

												10-yrs. '04 - '13	
2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD	3Q14	Cum.	Ann.
REITs 31.6%	MSCI EME 34.5%	REITs 35.1%	MSCI EME 39.8%	Barclays Agg 5.2%	MSCI EME 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Russell 2000 38.8%	REITs 13.4%	S&P 500 1.1%	MSCI EME 197.7%	MSCI EME 11.5%
MSCI EME 26.0%	Bberg Cmdty 21.4%	MSCI EME 32.6%	Bberg Cmdty 16.2%	Cash 1.8%	MSCI EAFE 32.5%	Russell 2000 26.9%	Barclays Agg 7.8%	MSCI EME 18.6%	S&P 500 32.4%	S&P 500 8.3%	Barclays Agg 0.2%	Russell 2000 138.3%	Russell 2000 9.1%
MSCI EAFE 20.7%	MSCI EAFE 14.0%	MSCI EAFE 26.9%	MSCI EAFE 11.6%	Market Neutral 1.1%	REITs 28.0%	MSCI EME 19.2%	Market Neutral 4.5%	MSCI EAFE 17.9%	MSCI EAFE 23.3%	Barclays Agg 4.1%	Cash 0.0%	REITs 128.5%	REITs 8.6%
Russell 2000 18.3%	REITs 12.2%	Russell 2000 18.4%	Market Neutral 9.3%	Asset Alloc. -24.0%	Russell 2000 27.2%	Bberg Cmdty 16.8%	S&P 500 2.1%	Russell 2000 16.3%	Asset Alloc. 15.0%	Asset Alloc. 3.0%	Market Neutral -0.7%	S&P 500 104.3%	S&P 500 7.4%
Asset Alloc. 12.5%	Asset Alloc. 8.3%	S&P 500 15.8%	Asset Alloc. 7.4%	Russell 2000 -33.8%	S&P 500 26.5%	S&P 500 15.1%	Cash 0.1%	S&P 500 16.0%	Market Neutral 9.3%	MSCI EME 2.7%	Asset Alloc. -2.2%	MSCI EAFE 104.1%	MSCI EAFE 7.4%
S&P 500 10.9%	Market Neutral 6.1%	Asset Alloc. 15.2%	Barclays Agg 7.0%	Bberg Cmdty -35.6%	Asset Alloc. 22.2%	Asset Alloc. 12.5%	Asset Alloc. -0.6%	Asset Alloc. 11.3%	REITs 2.9%	Cash 0.0%	REITs -2.5%	Asset Alloc. 100.2%	Asset Alloc. 7.2%
Bberg Cmdty 9.1%	S&P 500 4.9%	Market Neutral 11.2%	S&P 500 5.5%	S&P 500 -37.0%	Bberg Cmdty 18.9%	MSCI EAFE 8.2%	Russell 2000 -4.2%	Barclays Agg 4.2%	Cash 0.0%	MSCI EAFE -1.0%	MSCI EME -3.4%	Market Neutral 64.9%	Market Neutral 5.1%
Market Neutral 6.5%	Russell 2000 4.6%	Cash 4.8%	Cash 4.8%	REITs -37.7%	Barclays Agg 5.9%	Barclays Agg 6.5%	MSCI EAFE -11.7%	Market Neutral 0.9%	Barclays Agg -2.0%	Market Neutral -1.2%	MSCI EAFE -5.8%	Barclays Agg 56.0%	Barclays Agg 4.5%
Barclays Agg 4.3%	Cash 3.0%	Barclays Agg 4.3%	Russell 2000 -1.6%	MSCI EAFE -43.1%	Market Neutral 4.1%	Cash 0.1%	Bberg Cmdty -13.3%	Cash 0.1%	MSCI EME -2.3%	Russell 2000 -4.4%	Russell 2000 -7.4%	Cash 17.1%	Cash 1.6%
Cash 1.2%	Barclays Agg 2.4%	Bberg Cmdty 2.1%	REITs -15.7%	MSCI EME -53.2%	Cash 0.1%	Market Neutral -0.8%	MSCI EME -18.2%	Bberg Cmdty -1.1%	Bberg Cmdty -9.5%	Bberg Cmdty -5.6%	Bberg Cmdty -11.8%	Bberg Cmdty 9.0%	Bberg Cmdty 0.9%

Source: Russell, MSCI, Bloomberg, Standard & Poor's, Credit Suisse, Barclays Capital, NAREIT, FactSet, J.P. Morgan Asset Management.
The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Barclays Capital Aggregate, 5% in the Barclays 1-3m Treasury, 5% in the CS/Tremont Equity Market Neutral Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. All data represents total return for stated period. Past performance is not indicative of future returns. Data are as of 9/30/14, except for the CS/Tremont Equity Market Neutral Index, which reflects data through 8/31/14. "10-yrs" returns represent period of 1/1/04 – 12/31/13 showing both cumulative (Cum.) and annualized (Ann.) over the period. Please see disclosure page at end for index definitions. *Market Neutral returns include estimates found in disclosures.
Guide to the Markets – U.S. Data are as of 9/30/14.

Asset Class

58

J.P.Morgan Asset Management

We know that Asset Allocation (how much we own of Stocks, Bonds, Cash & Alternative) is important to the long-term success of our financial plan. We also know that diversification (not putting all our eggs in one basket) is important to the long-term success of our financial plan. Sometimes in the short run that does not look as attractive.

Consider this chart above showing the different Asset Class returns. At the end of the 3rd Quarter the S&P 500 was up 8.3% while a diversified Growth Portfolio was up only 3.0%. It is important sometimes to remind ourselves the purpose of investing for our longer-term goals.

Investment Manager Meetings Recap

November 13th, 2014

MARKET INSIGHTS

Alternative Asset Class Returns

												10-yrs '04 - '13	
2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD	3Q14	Ann. Return	Ann. Volatility
Real Estate 35.0%	Private Equity 28.3%	Real Estate 35.6%	Private Equity 19.7%	Gbl. Macro 4.7%	MLPs 76.4%	MLPs 35.9%	MLPs 13.9%	Real Estate 18.0%	MLPs 27.6%	MLPs 19.5%	MLPs 2.7%	MLPs 15.0%	Real Estate 25.3%
Private Equity 25.9%	Global Equity 17.4%	Private Equity 28.7%	MLPs 12.7%	Eq. Mkt. Ntrl. -3.0%	Global Equity 30.0%	Real Estate 26.7%	Private Equity 11.0%	Global Equity 16.5%	Global Equity 26.2%	Real Estate 14.6%	Gbl. Macro 2.1%	Private Equity 15.0%	MLPs 18.2%
Distrsd. 18.1%	Real Estate 13.7%	MLPs 26.1%	Gbl. Macro 11.4%	Mrgr. Arb. -6.7%	Real Estate 27.6%	Private Equity 20.4%	Real Estate 9.4%	Private Equity 14.0%	Private Equity 20.8%	Global Equity 6.7%	HF Agg. 2.1%	Real Estate 8.5%	Private Equity 10.3%
MLPs 16.7%	Distrsd. 10.4%	Global Equity 17.0%	HF Agg. 11.0%	Rel. Val. -17.3%	Rel. Val. 23.0%	Rel. Val. 12.5%	Mrgr. Arb. 2.3%	Rel. Val. 9.7%	Distrsd. 15.1%	Distrsd. 6.3%	Rel. Val. 1.6%	Distrsd. 7.7%	Distrsd. 9.6%
Global Equity 12.0%	HF Agg. 9.1%	Distrsd. 15.3%	Rel. Val. 10.0%	HF Agg. -18.7%	Distrsd. 20.2%	Distrsd. 12.2%	Rel. Val. 0.8%	Distrsd. 8.5%	HF Agg. 9.6%	Rel. Val. 6.2%	Mrgr. Arb. 1.0%	Global Equity 7.3%	Global Equity 9.3%
HF Agg. 9.3%	MLPs 6.3%	Mrgr. Arb. 14.6%	Mrgr. Arb. 8.9%	Distrsd. -22.3%	HF Agg. 18.6%	Global Equity 11.1%	Distrsd. 0.0%	MLPs 4.8%	Rel. Val. 7.5%	HF Agg. 5.1%	Global Equity 0.9%	Rel. Val. 6.5%	HF Agg. 7.8%
Gbl. Macro 7.5%	Eq. Mkt. Ntrl. 6.1%	HF Agg. 13.3%	Global Equity 7.7%	Private Equity -22.4%	Private Equity 13.4%	HF Agg. 8.5%	Gbl. Macro -0.7%	HF Agg. 4.4%	Eq. Mkt. Ntrl. 6.4%	Gbl. Macro 2.9%	Distrsd. 0.9%	HF Agg. 5.8%	Rel. Val. 6.8%
Rel. Val. 6.1%	Gbl. Macro 6.1%	Rel. Val. 12.2%	Distrsd. 6.8%	MLPs -36.9%	Mrgr. Arb. 11.9%	Mrgr. Arb. 4.6%	Eq. Mkt. Ntrl. -1.5%	Eq. Mkt. Ntrl. 3.1%	Mrgr. Arb. 5.3%	Mrgr. Arb. 2.6%	Eq. Mkt. Ntrl. 0.3%	Mrgr. Arb. 5.0%	Gbl. Macro 4.8%
Mrgr. Arb. 3.7%	Mrgr. Arb. 5.5%	Gbl. Macro 8.2%	Eq. Mkt. Ntrl. 5.7%	Real Estate -37.3%	Gbl. Macro 6.9%	Gbl. Macro 3.2%	HF Agg. -2.0%	Mrgr. Arb. 1.8%	Gbl. Macro 0.1%	Eq. Mkt. Ntrl. 2.4%	Real Estate -2.0%	Gbl. Macro 4.5%	Eq. Mkt. Ntrl. 3.7%
Eq. Mkt. Ntrl. 3.4%	Rel. Val. 5.3%	Eq. Mkt. Ntrl. 7.0%	Real Estate -16.3%	Global Equity -39.2%	Eq. Mkt. Ntrl. -1.7%	Eq. Mkt. Ntrl. 2.5%	Global Equity -6.0%	Gbl. Macro -1.3%	Real Estate -0.5%	Private Equity	Private Equity	Eq. Mkt. Ntrl. 2.7%	Mrgr. Arb. 3.6%

Asset Class

Source: Standard & Poor's, Alerian, HFRI, MSCI, Cambridge Associates, NAREIT, FactSet, J.P. Morgan Asset Management.
Hedge fund indices include distressed and restructuring (Distrsd.), relative value (Rel. Val.), global macro (Gbl. Macro), merger arbitrage (Mrger. Arb.), equity market neutral (Eq. Mkt. Ntrl.), and the aggregate (HF Agg.). Returns may fluctuate as hedge fund reporting occurs on a lag. QTD and YTD private equity data is unavailable and provided by Cambridge Associates. Real estate returns reflect the NAREIT Real Estate 50 Index and global equity returns reflect the MSCI AC World Index. Annualized volatility and returns are calculated from quarterly data between 12/31/03 and 12/31/13.
Please see disclosure pages for index definitions. Guide to the Markets – U.S.
Data are as of 9/30/14.

J.P.Morgan Asset Management