

**Quarterly
Investment Briefing
May 7, 2015**

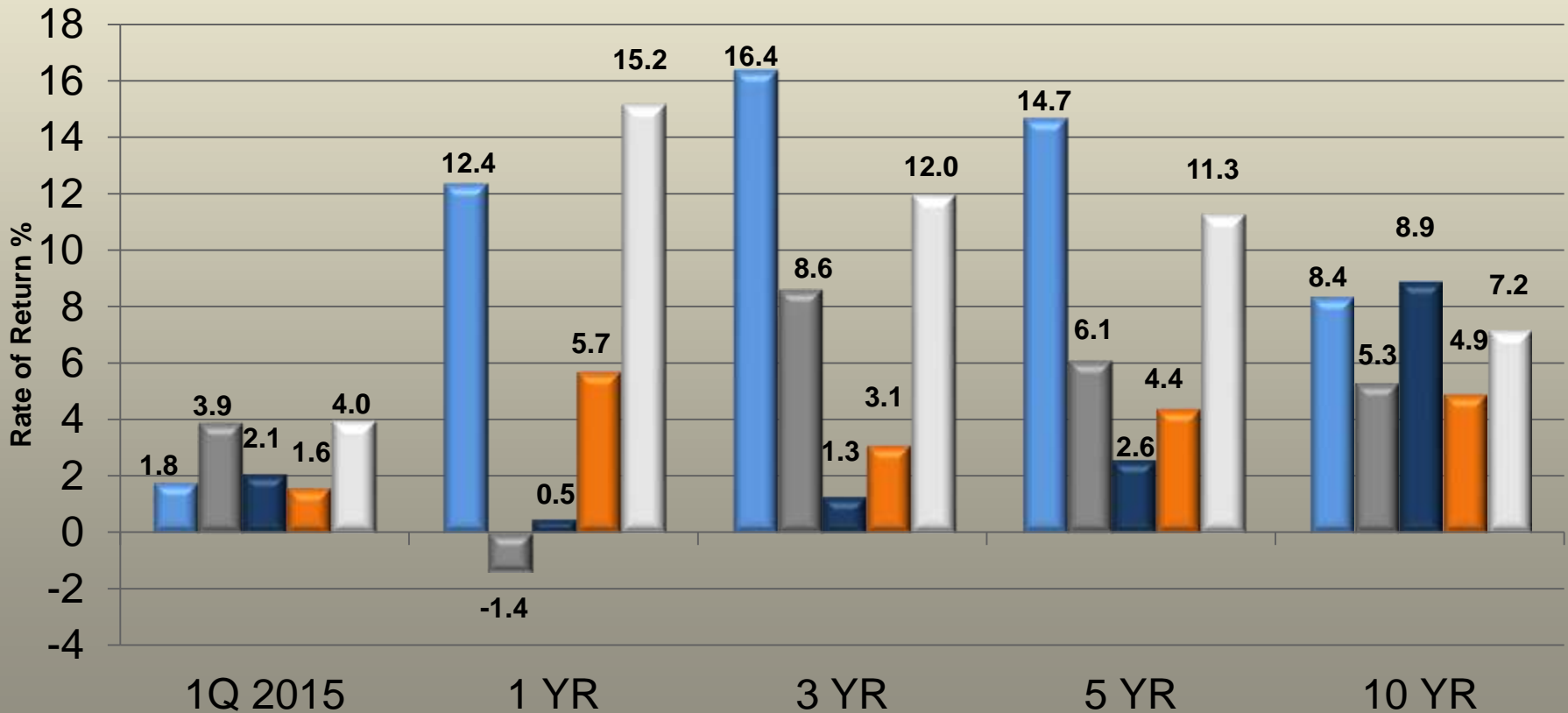


Clayton T. Bill, CFA

Stephen J. Nilles, CFP

Capital Market Returns Current & Annualized Period Ending March 31, 2015

- U.S. Equities
- Non-U.S. Equities
- Emerging Market Equities
- Fixed Income
- Real Estate



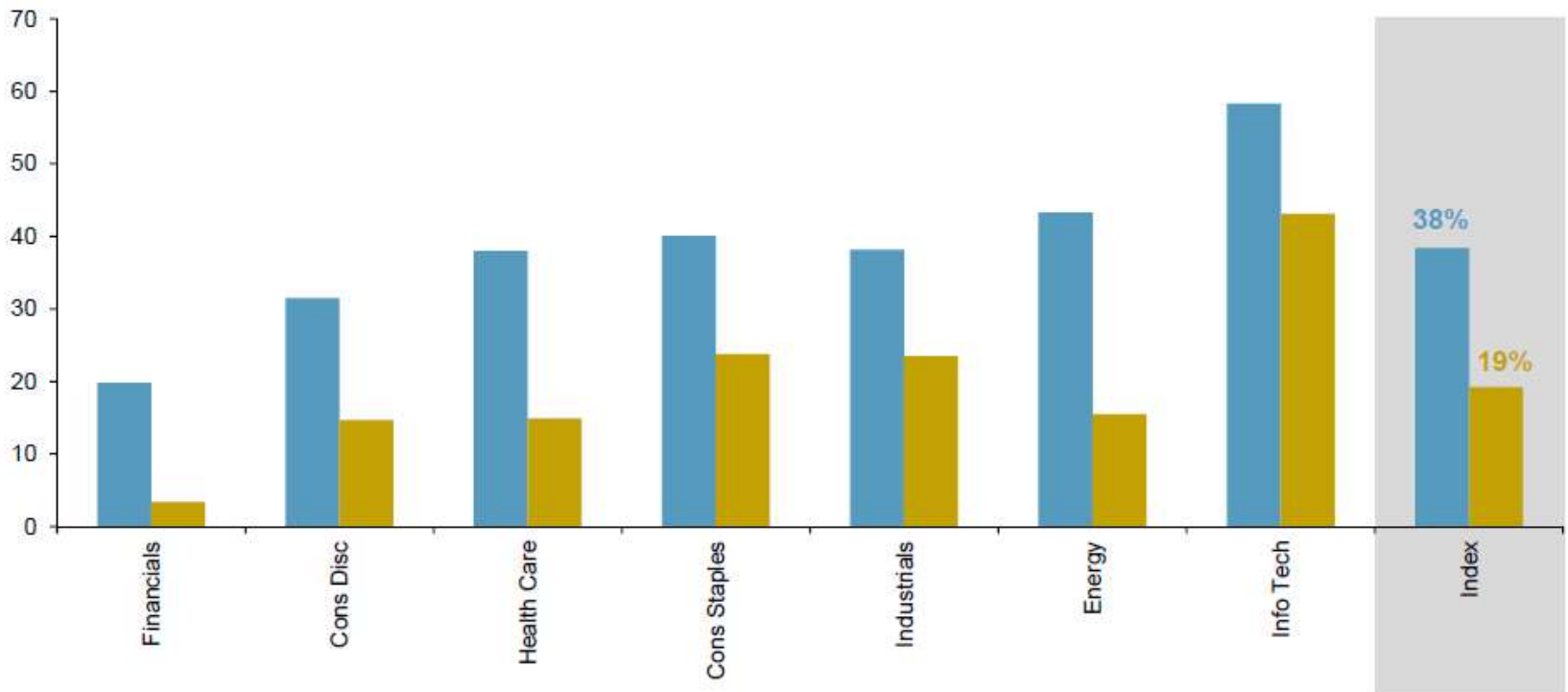
Domestic-centric Sectors May Benefit From Dollar Strength

The stronger dollar and weak overseas growth may prolong the moderate-growth, low-inflation mid-cycle economic phase, which is supportive of U.S. equities. The potential benefits may accrue to more domestic-centric sectors such as consumer discretionary and financials, which are represented in greater proportion in small-cap equities than in large caps.

International Revenue Exposure by Sector

■ Large Cap ■ Small Cap

International Sales Share of Total Sales (%)

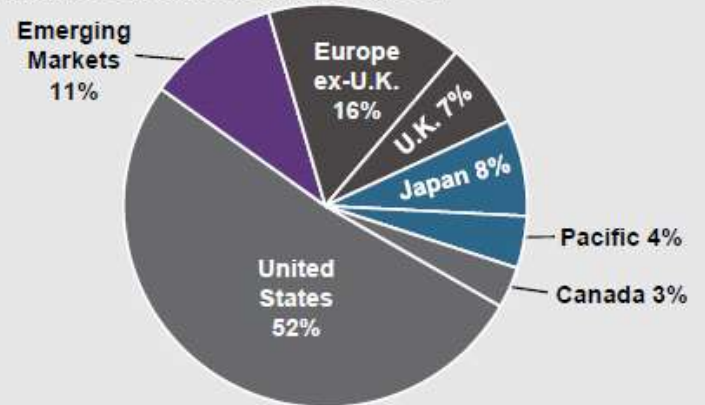


Global Equity Markets

Country / Region	YTD		2014	
	Local	USD	Local	USD
Regions / Broad Indexes				
U.S. (S&P 500)	-	1.0	-	13.7
EAFE	11.0	5.0	6.4	-4.5
Europe ex-U.K.	15.4	5.7	7.4	-5.8
Pacific ex-Japan	8.0	3.2	5.8	-0.3
Emerging Markets	4.9	2.3	5.6	-1.8

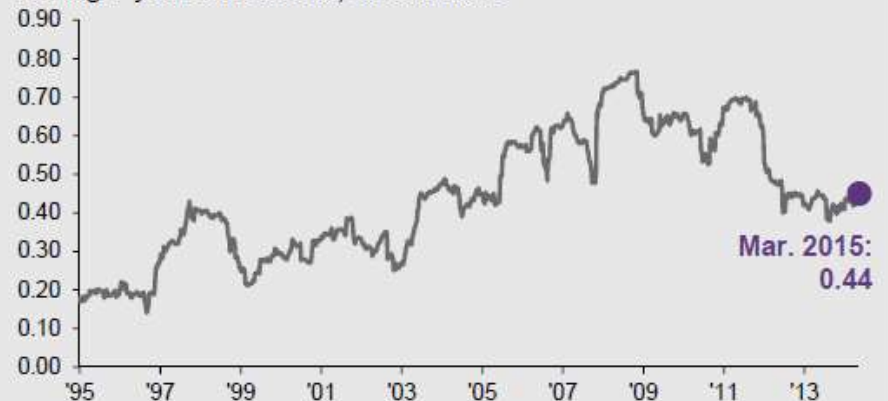
MSCI: Selected Countries				
United Kingdom	4.0	-0.9	0.5	-5.4
France	18.0	4.8	3.6	-9.0
Germany	22.1	8.4	2.8	-9.8
Japan	10.4	10.3	9.8	-3.7
China	8.1	8.1	8.3	8.3
India	4.5	5.4	26.4	23.9
Brazil	2.7	-14.6	-2.8	-13.7
Russia	15.7	18.6	-12.1	-45.9

Weights in MSCI All Country World Index
 % global market capitalization, float adjusted



Global Equity Market Correlations

Rolling 1-year correlations, 30 countries



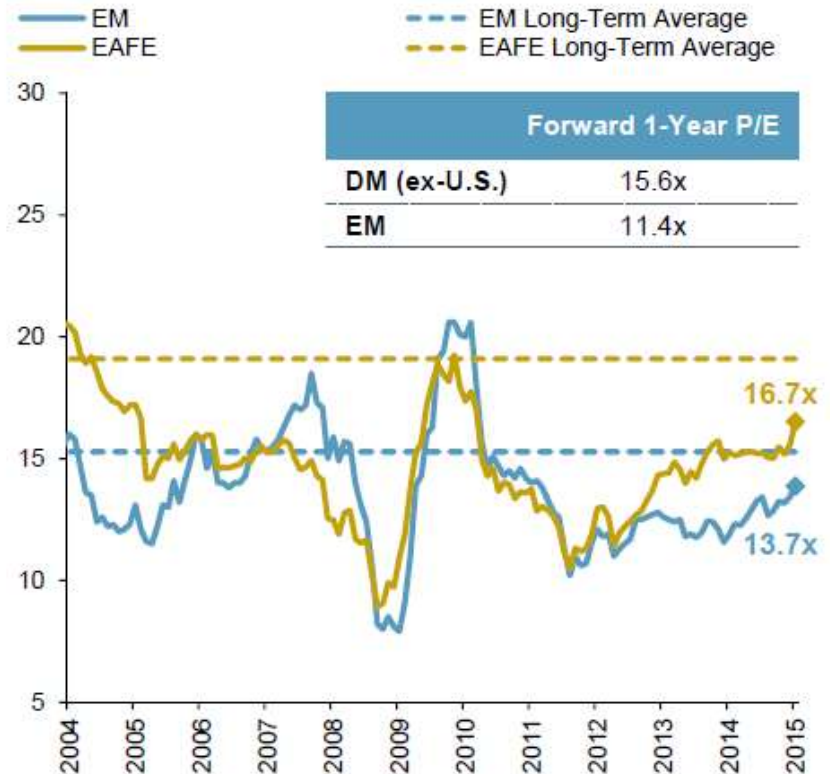
Equity Valuations Rise but Still Relatively Attractive

Due to the rise in equity prices and subdued earnings growth, valuations rose across most non-U.S. equity categories during Q1, closer to their historical averages. Relative to the U.S., price-to-earnings multiples remain favorable, particularly on a cyclically adjusted basis, for emerging markets and peripheral Europe.

Cyclical P/Es:
Price-to-Five-Year Peak Earnings



Trailing 12-Month P/E Ratios



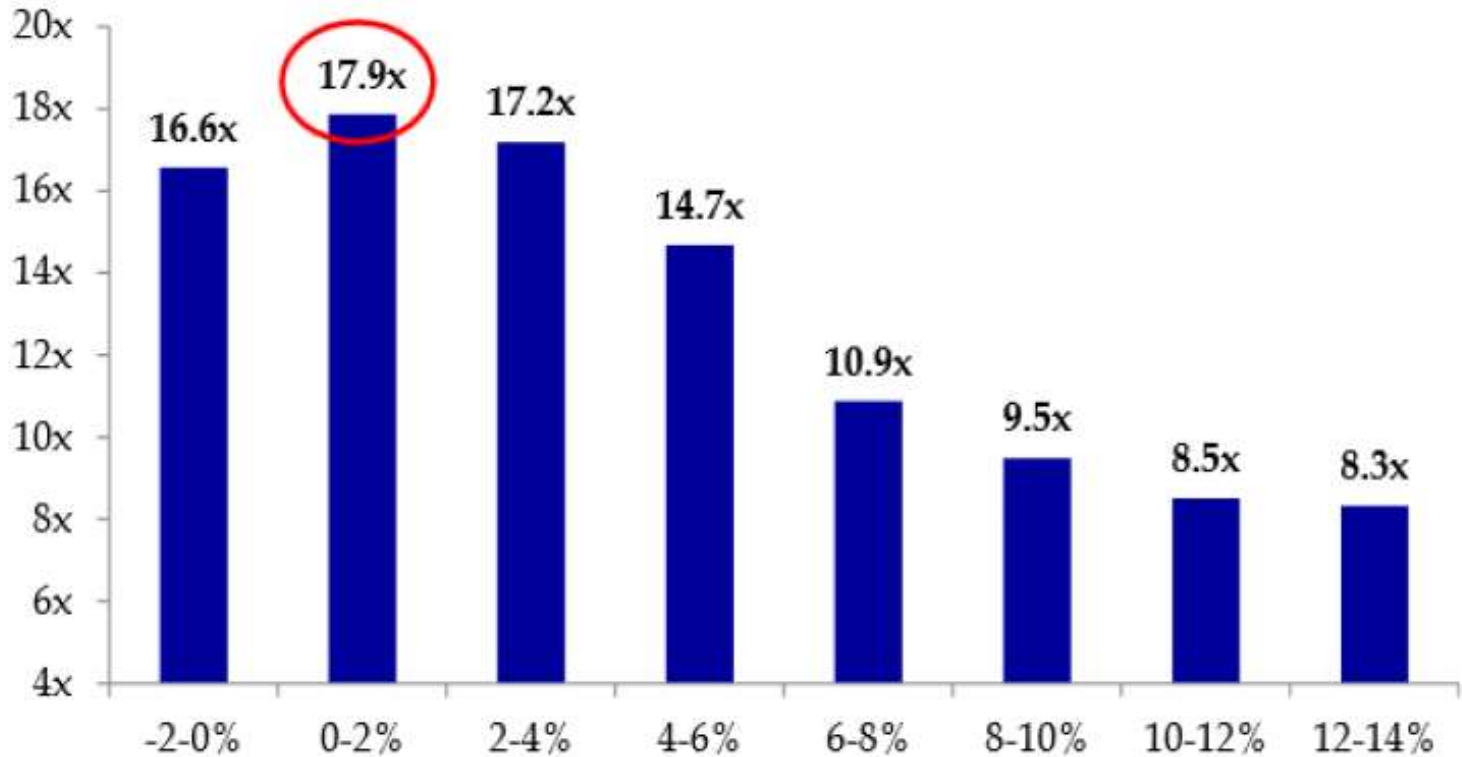
Valuation Drives Long Term Returns – Not Short Term

Normalized PE's predictive power on S&P 500 returns



Benign Levels of Inflation Are In The Sweet Spot For Valuations

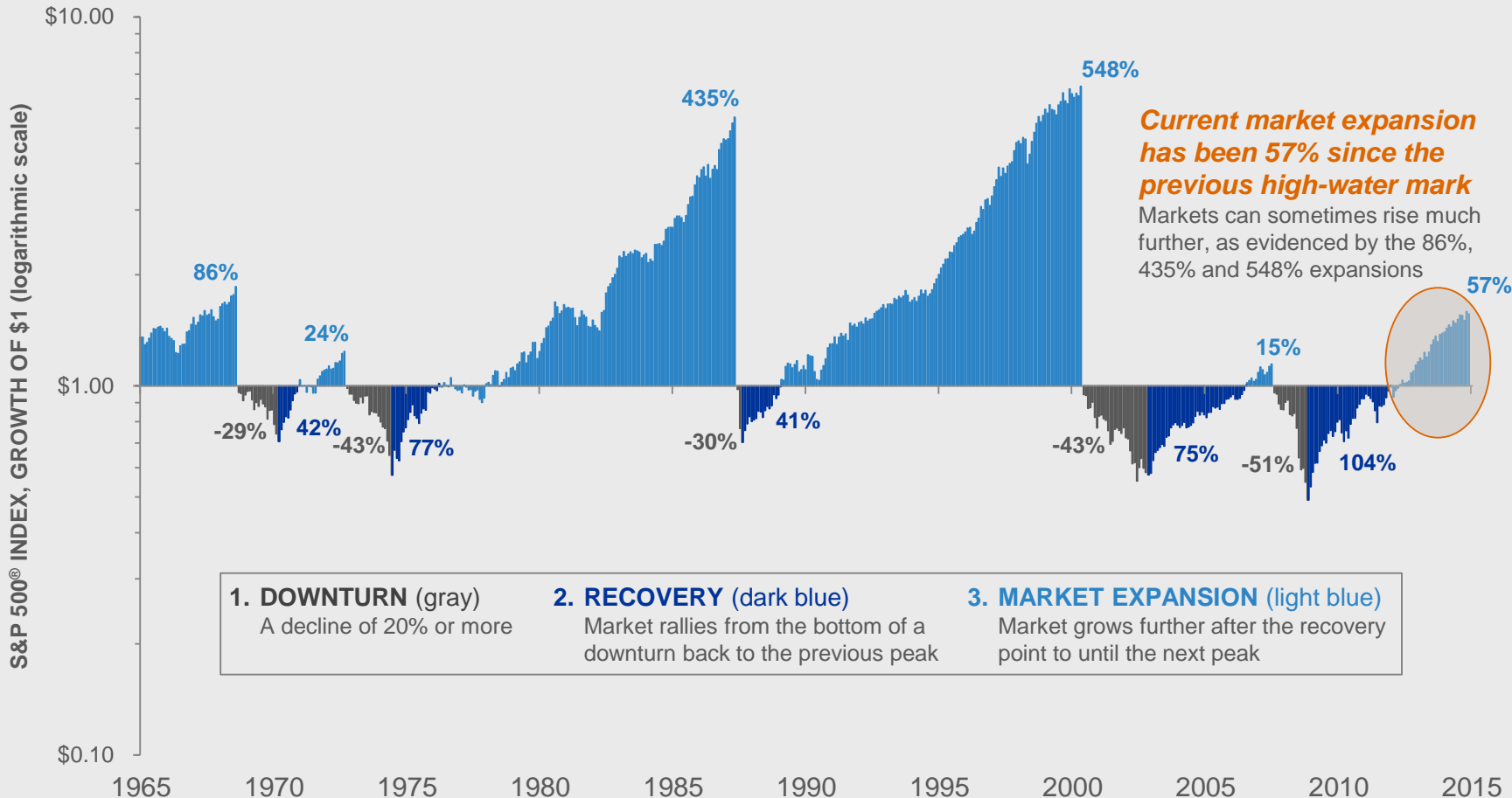
Average S&P 500 LTM P/E by CPI Y/Y Tranche
(1950 - Current)



U.S. Stocks Have Room To Run

PUTTING THE RECENT "RUN UP" IN PERSPECTIVE

The last 50 years of equity markets¹



Source: Russell

QE: First In, First Out

UNITED STATES Quantitative Easing

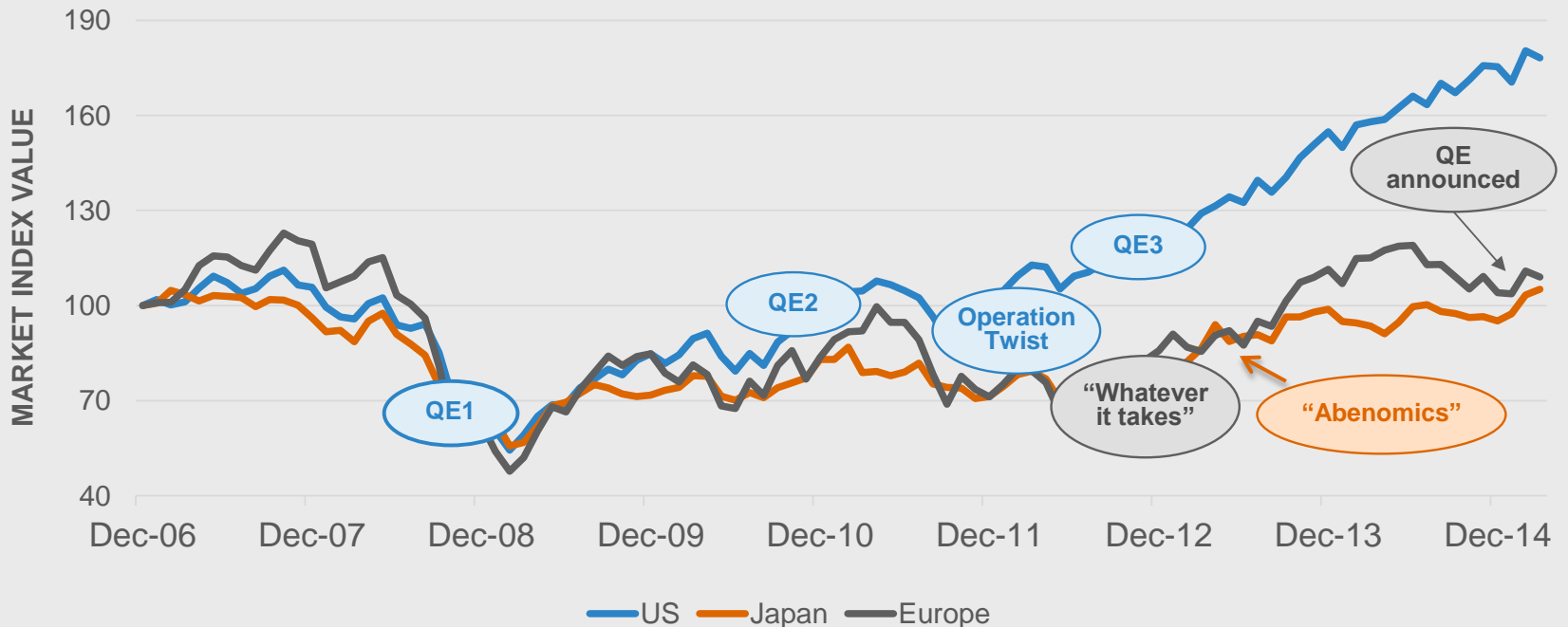
- › Federal Reserve's multiple rounds of quantitative easing led to early market recovery and expansion

EUROPE Turning the corner

- › Outright Monetary Transaction (OMT) in 2012
- › 60bn Euro per month quantitative easing program announced: Mar. 2015 - Sept. 2016

JAPAN "Abenomics"

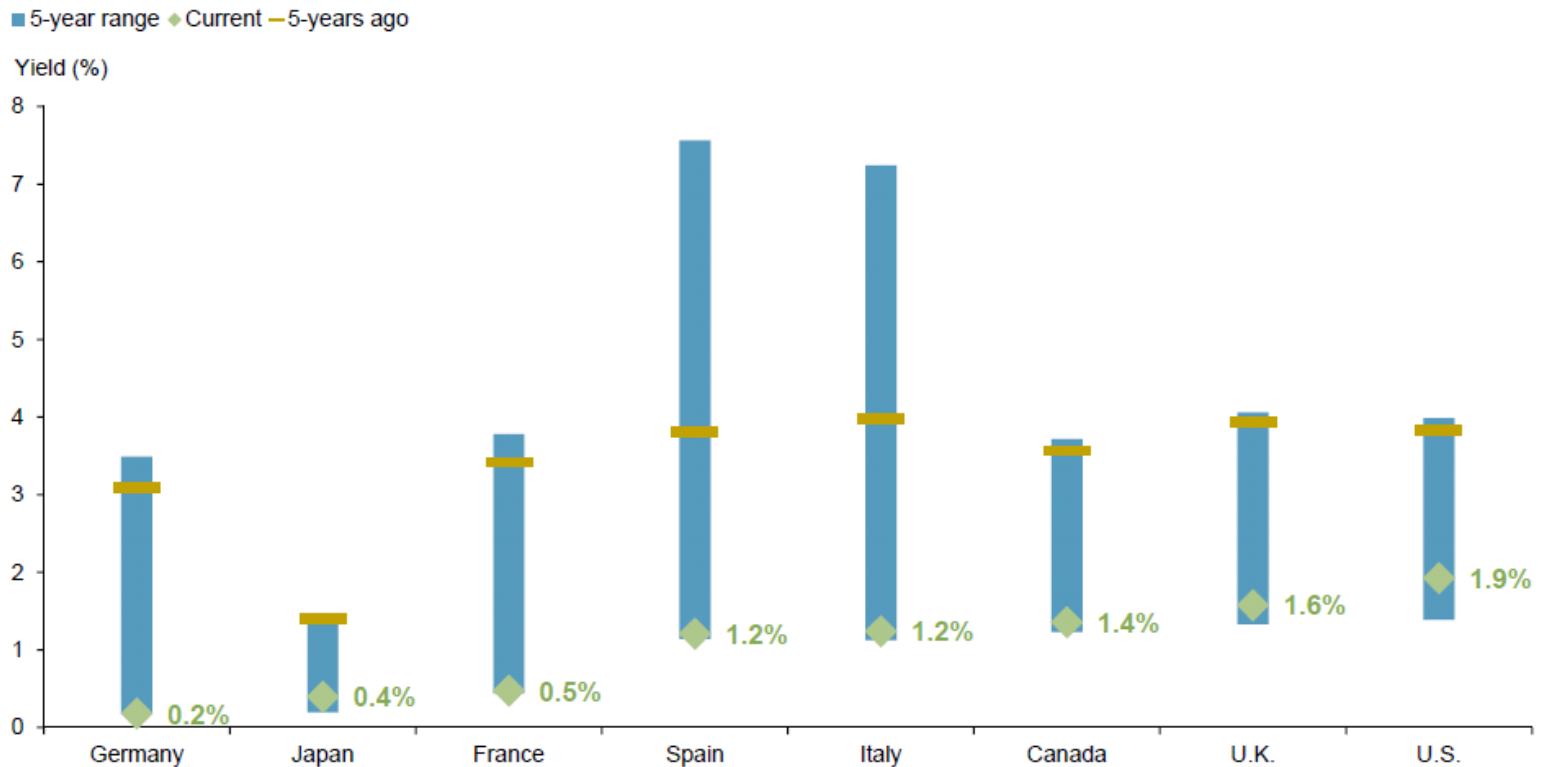
- › Prime Minister Abe's economic plan announced in January 2013 targeted fiscal and monetary reform



Global Yield Plunge Pushed Down U.S. Long-Term Rates

Most developed-economy government bond yields hit multiyear lows during Q1, as central banks in Europe and Japan purchased bonds as part of their quantitative easing programs. U.S. long-term yields remain relatively high and attractive for foreign investors – particularly with the dollar’s continued strength – helping cap the upside potential for long-term yields.

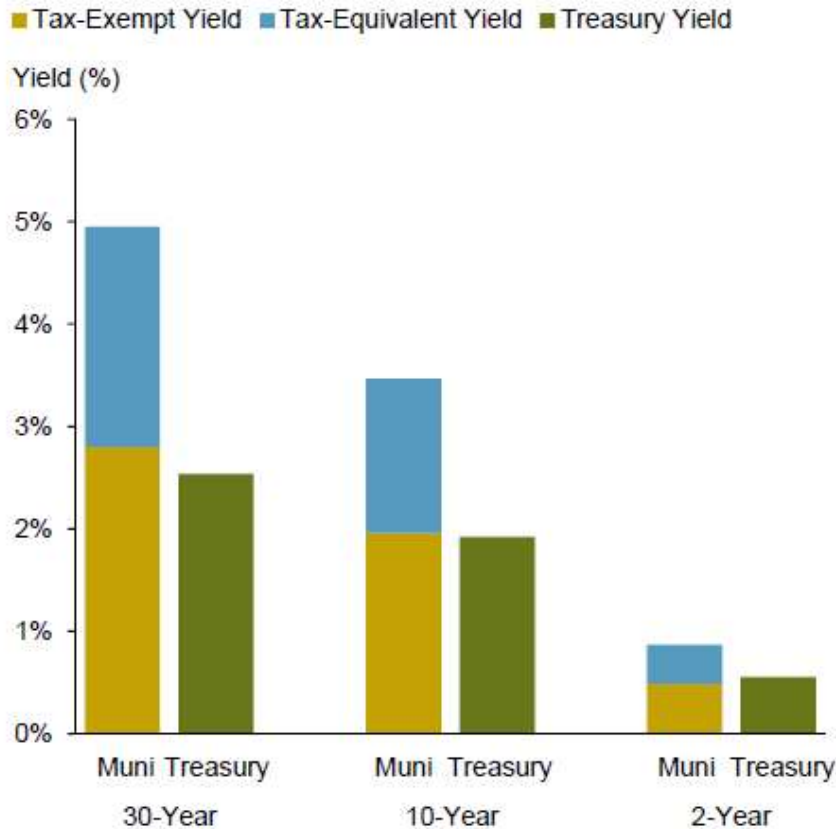
10-Year Government Yields for Major Economies



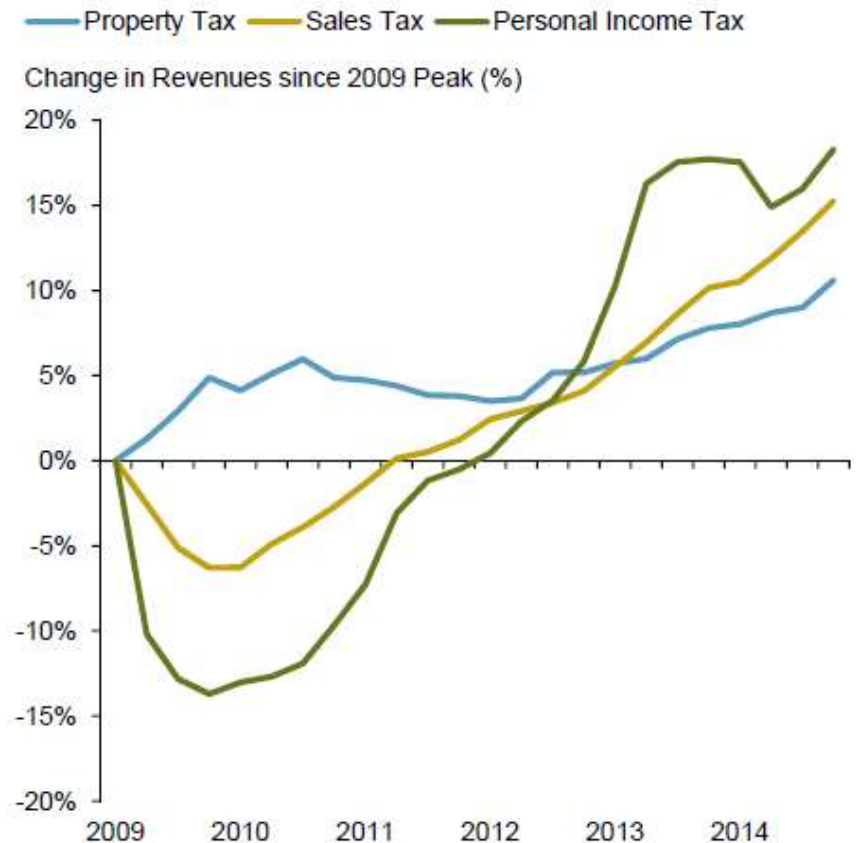
Muni Valuations Still Favorable; Fundamentals Improving

Although fiscal challenges exist for many municipalities, state revenues have been improving in recent years, and the positive growth in property tax revenues is an encouraging sign for localities. Highly rated municipal bonds continue to offer better tax-equivalent yields than comparable Treasuries.

Municipal Bonds vs. Treasuries



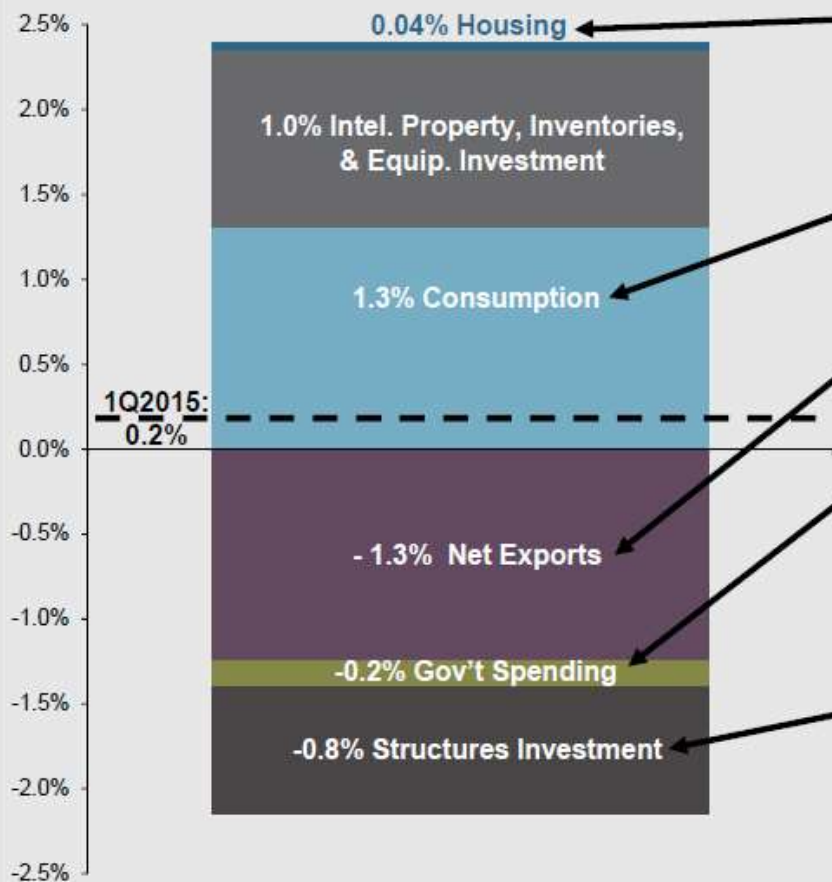
State and Local Tax Revenues



1Q GDP Growth Faced Multiple Headwinds

Estimated 1Q2015 GDP Growth

Contribution to % change in saar

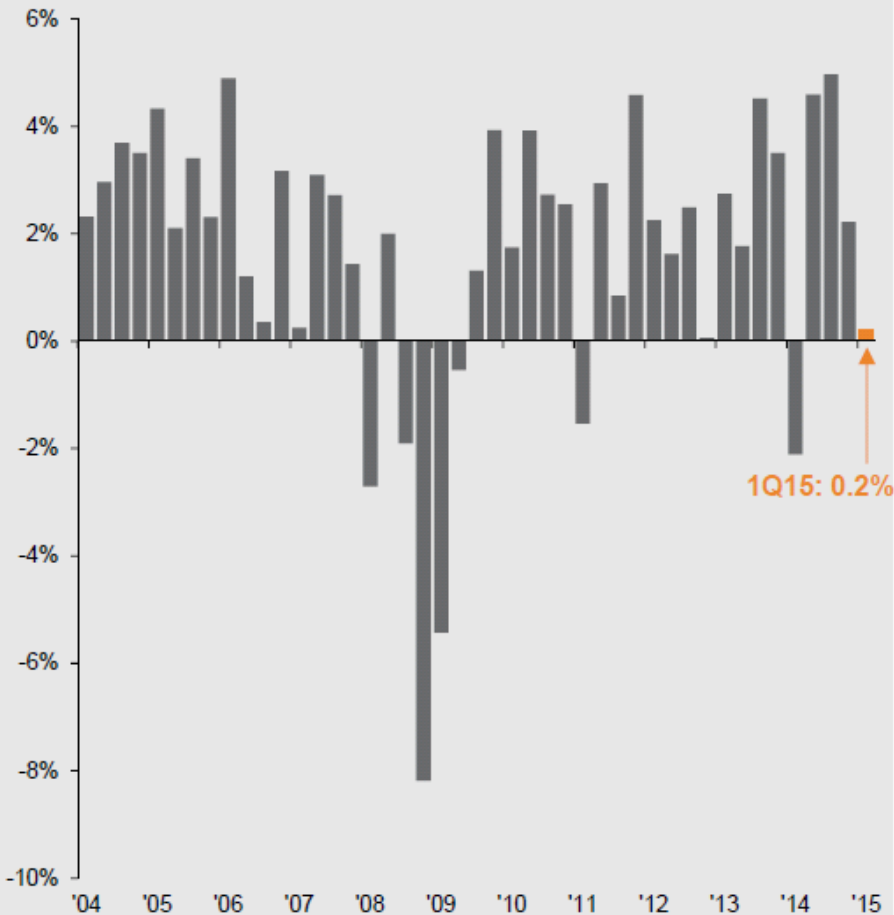


A List of Headwinds

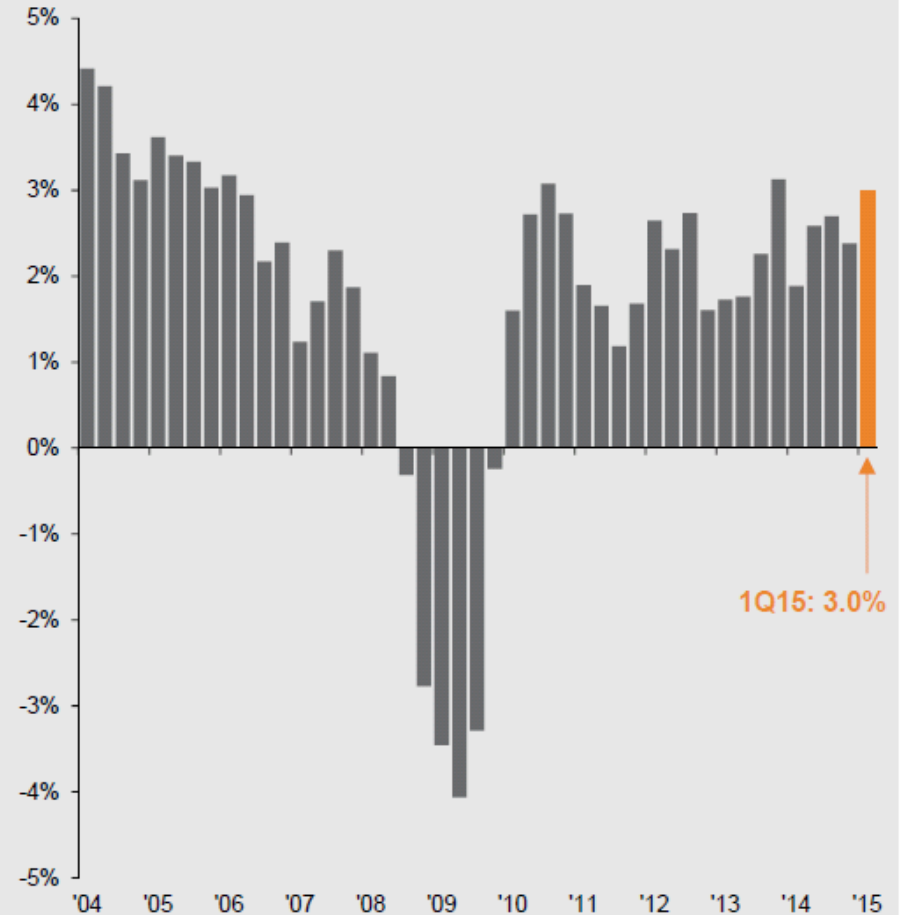
- **Housing:** Weather affected home building, indicating builders are waiting on conditions to improve before pouring foundations.
- **Consumption:** A little disappointing, although weather may be an excuse.
- **Net Exports:** Union action on West Coast may have hurt exports more than imports in Q1.
- **Gov. Spending:** Reduction in operations in Iraq and Afghanistan. Federal and local governments spent less on unemployment benefits and public housing. State and local governments reduced transportation and education spending due to budget cuts.
- **Investment:** Structures investment was hit hard by declining capital spending on energy.

Although Growth Appears To Have Slowed in Q1, It Still Looks On Trend Year-Over-Year

Quarter over Quarter Real GDP Growth
 % change, saar



Year over Year Real GDP Growth
 % change

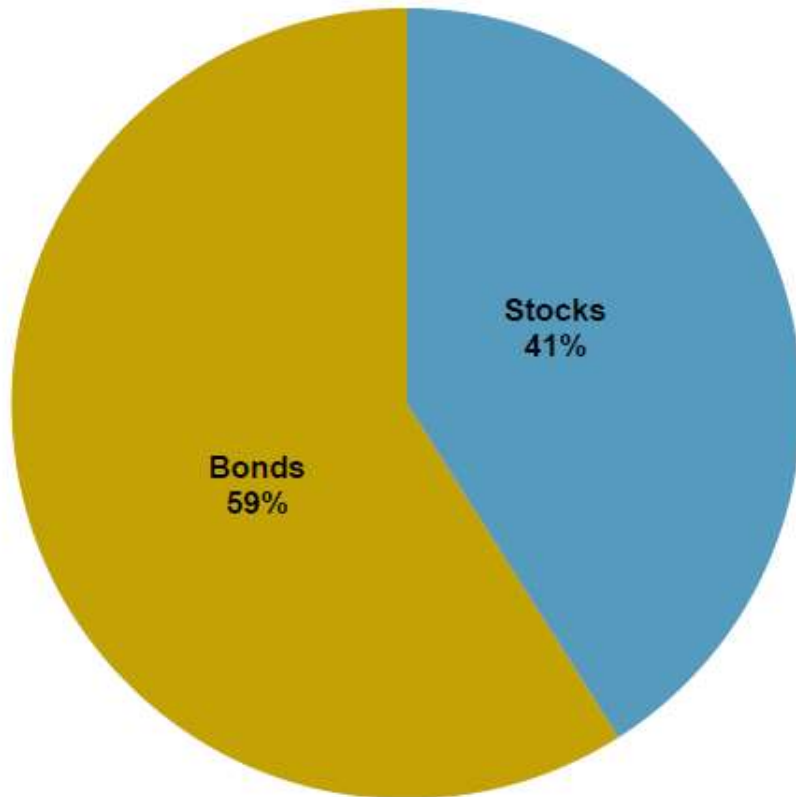


Myopic Loss Aversion Prompts Risk-Averse Behavior

Myopic loss aversion describes a common bias in which greater sensitivity to losses than to gains is compounded by the frequent evaluation of outcomes. Investors who review their portfolios more frequently have tended to shift toward more conservative exposures, as increased monitoring raises the likelihood of seeing (and reacting to) a loss.

Impact of Feedback Frequency on Investment Decisions

Monthly



Yearly

