Financial Services Advisory
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Follow the Central Banks?

First Quarter Market Review From Your Portfolio Management Team—April 10, 2015

There is an old saying on Wall Street that says, "Don't fight the Fed." It means that if the Federal Reserve is accommodative and pushing liquidity into the financial system, it's a good idea to stay invested, since some of that liquidity will ultimately find its way into the stock and/or bond markets. We should now broaden that adage to include any Central Bank around the world. Recently, we have seen both Japan and Europe become more accommodative and the result—not surprisingly—is that those stock markets have rallied strongly. European stocks had a strong quarter, rising over 10% in Q1; although, for a U.S. investor, the strong dollar negated some of that gain. Japan, for its part, has rallied nicely over the past two years when they began their version of easing. Central banks around the world are flooding their respective countries in liquidity, which has so far, resulted in positive stock returns for those countries.

For its part, returns from the broad U.S. markets were quite mediocre, with the S&P 500 index up only 1%, and the Dow Jones Industrial Average actually down slightly (See table below). So, we are seeing an interesting reversal of fortunes from last year, when large U.S. companies posted solid returns and foreign stocks struggled.

Index	*Q1*
Dow Jones 30	-0.3%
S&P 500 Index	1.0%
EAFE	4.9%
Barclays Bond	1.6%
90-Day T-bills	0.0%

Source: Ned Davis Research
Note: EAFE represents the MSCI index of foreign stocks; Dow Jones 30 represents the Dow Jones Industrial Average; Barclays Bond represents the Barclays Capital Aggregate Bond Index. Q1 covers the period from 12/31/14 – 3/31/15.

Investors in the U.S. are confused as the Fed has indicated that it is ready to start increasing interest rates, which suggests the good times for investors are about to get more challenging. And this is happening at the same time we are seeing lower and lower earnings growth numbers from analysts, coupled with signs the economy is slowing down more than is desired. At this point, many are pointing to another bad winter as the culprit, and we will see the numbers pick up along with the temperatures of spring; however, not every investor is certain of that interpretation.

From FSA's Vantage Point

Most of the broader stock indexes appear to be in some type of holding pattern (we often refer to this pattern as a landing). The S&P 500 index closed the quarter at a level of 2068, a level it first crossed back in late November. Since then, it has been a seesaw battle of ups and downs as investors try to decide if stocks can continue to push higher (the consensus view) or if the threat of higher interest rates and a slowing economy are going to derail the bull market.

Over the past few years, it has served investors well to concentrate on owning U.S investments and shying away from overseas investments. Maybe we will see a reversal of that trend this year. Currently, we have modest investments overseas, but will look to increase those allocations if the trends continue to develop. One of the advantages of our "Follow the Money" approach is that we can try to keep the portfolios aligned with the strength of the market. With central banks in Europe and Japan taking the same course the U.S. central bank has taken over the past several years, our flexibility may serve us well in 2015.

<u>We are required each year to offer our most recent written disclosure statement (Brochure) filed with the SEC. If you would like a copy of our Brochure, please contact our office and we will be glad to send it to you.</u>

Portfolio Review

Below we review the five broad strategies that FSA manages. Keep in mind that your specific portfolio may differ to some degree from the averages, as our portfolios are individually managed.

Income (Strategy #1)

Bonds have managed to consistently move higher ever since their difficulties in mid-2013. Bonds typically provide consistent, albeit tame, returns, while stocks offer more exciting opportunities. This strategy is geared for better yields than CDs or money markets with minimal risk. During the quarter, we brought the money market position down to modest levels, adding a high yield, as well as a foreign fund.

Income & Growth (Strategy #2)

This strategy is managed with an objective of generating positive results, regardless of the overall stock or bond environment. It typically holds a high allocation to bonds and looks for the lowest risk option to generate consistent returns. For the quarter, we reduced the money market position to modest levels by adding an equity income fund, as well as a foreign bond fund.

Conservative Growth (Strategy #3)

We have maintained very consistent weightings among stock and bond funds within this strategy. The global funds, which struggled in 2014, have begun to shine in 2015. Many of the bond positions managed to generate better returns than their more aggressive stock cousins.

And we will always look for opportunities to get the same returns by taking less risk. During the quarter, we made minimal changes to this strategy.

Core Equity (Strategy #4)
Our Core Equity portfolios continue to participate in the equity upswing on the strength of health care, retail, and real estate stocks. The industrials sector was the laggard for the quarter, although we continue to hold this area for now as the trends have stalled, but not yet reversed. During the quarter, we added another sector fund that focuses on consumer stocks. We also rotated out of a lagging high yield fund into one that was exhibiting better strength.

Tactical Growth (Strategy #5)
This strategy struggled in 2014 as opportunities to outpace U.S. stocks dwindled, so it was encouraging to see that many of the same areas that lagged last year contributed to good returns for Tactical Growth portfolios in Q1. As our most active strategy, the first quarter gave us opportunity to continue to cull the portfolio as we search for the strongest areas of the market. The precious metals funds, which started the year so strongly, fizzled in February and we sold those positions. We also sold one of the two Japan funds we held, while increasing our small-cap and high yield bond positions, as well as adding an emerging market stock position.

FSA Investment Team