ASCENTIAL
WEALTH ADVISORS

Fall 2015

Inside:

International Equities Lead

Index:	YTD 2015	2014	2013	2012	2011
S&P 500	+1.2	+13.7	+32.4	+16.0	+2.1
DJIA	0.0	+10.0	+29.6	+10.2	+8.4
EAFE (Int'l)	+5.5	-4.9	+22.8	-17.3	-12.1
BC Ttl Bond	-0.1	+5.9	-2.0	+4.4	+7.7
Dow Jones Relative Risk Benchmarks					
Conservative	-0.1	+3.9	+1.4	+5.4	+5.3
Moderate	+1.6	+5.4	+14.5	+11.2	+0.3
Aggressive	+3.7	+6.6	+27.0	+16.8	-5.1

International equities responded to new stimulus from central banks, posting modest returns for the first half of 2015. US equities and bonds generated little or no return for the period. Within the US, healthcare and telecom had the best performance, while real estate, energy and utilities were the most challenged sectors with losses ranging from 4% - 11%.

The Federal Reserve did not raise the fed funds rate in light of mixed economic indicators and relatively slow growth; however, market driven interest rates in the US rose, generally pushing bond prices lower. After the economy contracted slightly in the first quarter, US GDP appears to be on track for growth of about 2.3% for the full year. With inflation remaining low at 1.7% and wage growth at just 1.8%, less than half of its 50 year average, the Fed has not raised rates, remaining mindful of the potential for stalling out economic growth. Although the recovery has been choppy and concerns over Greece linger, with the supportive monetary policy from the European Central Bank, the Eurozone is on a growth path as well with GDP expectations at 1.6% for 2015.

Focus:

- ✓ Maintain fixed income strategy for rising rate environment but reduce emerging market bonds
- ✓ Reduce overweight energy exposure in favor of technology
- ✓ Increase weighting to developed international equity

Focus

We believe the task of balancing risk and return can be tricky, particularly at times when "safe" assets are unusually expensive and at risk to the shock of rising interest rates. It feels a bit like a broken record to be re-stating that there is risk in traditional fixed income today as rates are beginning to rise and poised to rise further. We believe this is truly the case however. At the risk of being repetitive, we are cautioning against rising rates and recommend maintaining a portfolio less sensitive to interest rate movement.

The return side of the scale seems a little less predictable, with equity markets in the US more expensive than they have been for years, but in our opinion certainly not in bubble territory. In addition to remaining diversified, our risk assets can be managed by being mindful to pockets of remaining value after an extended period of performance. We find value today both in the US technology sector and in developed international equities, particularly the Eurozone.

"Expectation is that rates will rise slowly over the next couple of years until more normal levels are reached."

Fixed Income

Bonds have begun to experience the pressure of rising interest rates, posting slightly negative returns for the first half of the year. The ten year treasury started 2015 at 2.17% and ended the first half at 2.34% after falling to a low of 1.65%.

It is broadly anticipated that the Fed will begin cautiously increasing rates by the end of the year, yet it is likely that the process will be less aggressive than past periods of rate hikes due to concerns about interfering with a timid recovery. Expectation is that rates will rise slowly over the next couple of years until more normal levels are reached.

We continue to recommend an underweight allocation to fixed income, and within the asset class, a strategy that is less sensitive to rising interest rates. This strategy has delivered results so far this year as rates have come under pressure.

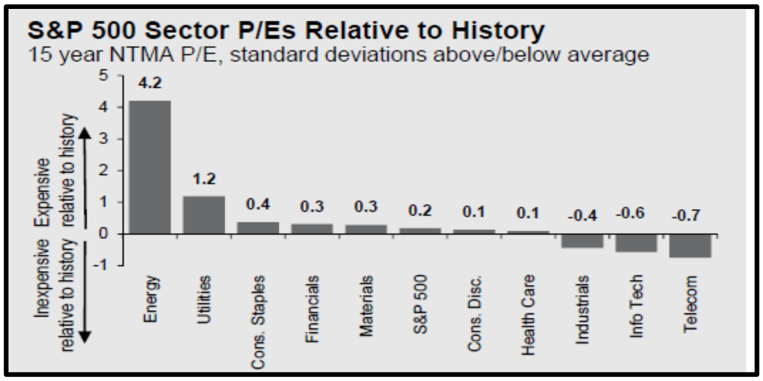
However within this strategy we are reducing the allocation to emerging market bonds. Fundamentally, emerging market economies are experiencing a slowdown in growth due to their heavy dependence on strong commodity prices and slow global growth. Historically, there has been a correlation between defaults on emerging market debt and increases in the Federal Funds Rate (UBS, WMR June 9, 2015) as investors choose to repatriate to "safer" dollar denominated investments as yields rise. As a result, we prefer moving a portion of emerging market debt into a hedged US bond strategy.

"While generally US equity valuations are not cheap, we believe they remain more attractive than current expensive bond valuations, and opportunities for returns still appear available in certain sectors."

US Equities

We think US equities remain an attractive place to invest despite a relatively long string of solid performance. Corporate profits remain at record levels and debt is well below average, with S&P 500 earnings per share (excluding energy) rising 10% year over year. On a forward earnings basis, the S&P 500 is trading at about 16.9 times earnings versus a 25 year average of 15.7. While generally US equity valuations are not cheap, we believe they remain more attractive than current expensive bond valuations, and opportunities for returns still appear available in certain sectors.

Energy stocks have come under intense pressure over the past year. We do feel that advancements in energy technology have caused a fundamental shift in the energy market that supports lower energy prices in the future. As a result of this, we expect less intense investment in energy infrastructure and are recommending a reduction in our overweight allocation to energy.



JP Morgan Guide to Markets, Q2 2015

We see opportunity in the US information technology sector. Technology is attractively valued both on a forward and trailing earnings basis, and is an area that we feel holds enhanced return potential.

Based on valuation, we continue to favor growth over value for investment style. Small cap equities, which stand to benefit most from an improving US economy, are also one of our preferred asset classes within the US.

International Equities

Developed international equities have led the pack so far in 2015, with a 5.5% gain in the MSCI EAFE, while emerging markets posted a 3% return. While we have not lost confidence in emerging markets, and believe they remain attractively valued, we see more immediate opportunity in developed international markets.

With growth in developed nations slowly improving, the European Central Bank is now engaged in a quantitative easing program similar to what the US Federal Reserve, Bank of England, and Bank of Japan have successfully implemented. This should hasten the recovery and create greater demand for risk assets, supporting equity markets. We have seen this strategy produce the desired results thus far in the US, UK, and Japan, and expect a similar story to unfold in the Eurozone. Based on this we are recommending an increased allocation in the developed international space.

While the story of Greece has dominated headlines, realistically, the impact of a default on Greek debt should be fairly contained and short lived. Greece's GDP is a mere 6.5% of Germany's, and total outstanding debt represents barely 1% of Europe's bank assets. Greek distressed debt is now held primarily by government entities, which should limit the contagion of a default (Lord Abbett, June 29, 2015). As a result, we feel that markets will quickly emerge from the shadow of Greece.

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Other (Commodities, Real Estate, and Alternatives)

Commodities continue to experience pressure from both oversupply and lack of global demand, in particular due to growth in emerging economies slowing and lessening demand from infrastructure improvements. We are not recommending an increased weighting to commodities in the near term.

After a year of strong performance in 2014, real estate investments have generally fallen back this year. With higher interest rates on the horizon, we suggest maintaining our current underweight position at this time.

We continue to recommend a combination of alternative investments and bonds to manage portfolio risk while being sensitive to rising interest rates. The alternative investments we recommend are meant to provide bond-like returns over time with less interest rate and equity market risk.

Our alternative strategies posted decent results for the period. We are suggesting maintaining current weightings in the alternative category at this time.

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Heads Up:

- **New! E-Signature technology is becoming available to us for the completion of some documents. For those clients who prefer to do things electronically, this new system may help expedite certain administrative requests.**
- **Dan Maki joined our team in March as a Client Services Manager. Dan comes to us with a background in institutional money management and holds the Chartered Financial Analyst (CFA) designation. We look forward to introducing him.**

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The Bigger Picture

So what does all of this mean? An investment strategy is a piece of the bigger picture, which is helping our clients achieve their financial goals. Maintaining a disciplined and thoughtful investment strategy can be a critical piece of the financial planning process, but the decisions we can help with in the other areas of financial and estate planning are just as crucial to a successful outcome. While markets can be fickle from day to day, over the longer term it is consistency in strategy and results that can make a difference between achieving or falling short of financial goals. Just as we regularly re-evaluate our investment strategy, revisiting a financial or estate plan periodically is also important to staying on track. This allows adjustments for any changes to individual circumstances or legal changes that can impact the efficacy of even the most well laid plans.

Disclosures

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